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Independent auditor's report

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2020 INCLUDED IN THE ANNUAL REPORT

Our opinion

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

In our opinion:

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

- The accompanying company financial statements give a true and fair view of the financial position of Kendrion N.V. as at December 31, 2020, and of its result for 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated statement of financial position as at December 31, 2020.

2. The following statements for 2020: the consolidated statement of financial position, the consolidated statements of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows.

3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The company balance sheet as at December 31, 2020.

2. The company profit and loss account for 2020.

3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

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

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

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

Materiality

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

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

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

Scope of the group audit

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

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

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

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

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We have performed the following audit procedures:

- We performed audit procedures at group level in areas such as consolidation, reporting, accounting for the INTORQ acquisition, goodwill impairment testing and taxation. Specialists were involved, amongst others, in the areas of information technology, tax and valuation.

- At group level, we have performed audit procedures regarding the corporate entities and we also performed full scope audit procedures on Kendrion (Shelby) Inc.

- For all other relevant foreign components, the group audit team provided detailed written instructions, which – in addition to communicating the requirements of component audit teams – detailed significant audit areas and information obtained centrally relevant to the audit of individual components including awareness of risk related to management override. Furthermore, we developed a plan for overseeing each component audit team based on its relative significance to the Company and certain other risk characteristics. This included conference calls with component during all stages of the audit whereby fraud specialists accompanied the group engagement team at several preselected components, performing remote file reviews, attending closing meetings and reviewing component audit team deliverables in order to gain sufficient understanding of the work performed.

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

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

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

Scope of fraud and non-compliance with laws and regulations within our audit

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

Consideration of fraud

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

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

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

Consideration of compliance with laws and regulations

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

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

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

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

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

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

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Our key audit matters

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

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

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

1. General IT controls	
DESCRIPTION	***HOW THE KEY AUDIT MATTER WAS ADDRESSED IN THE AUDIT***
Kendrion has operations in different countries that use one groupwide IT platform (excl. the newly acquired INTORQ entities), which is located and maintained in Villingen, Germany. In the last couple of years, management has been in the process of establishing a formal IT control framework and further enhancing the internal controls surrounding the overall IT environment. We consider Kendrion's IT landscape and general IT controls over financial reporting as our basis for designing audit procedures that are appropriate for our audit. We have included general IT controls as a key audit matter because the importance of these controls on the group's control environment.	We have evaluated the Group's relevant general IT controls, including standard processes and procedures. Our work consisted of assessing the main characteristics of the IT infrastructure and applications and of testing the relevant internal controls related to the infrastructure, applications and related processes. IT audit specialists have been deployed to assist us with testing the group's general IT controls. ***OBSERVATION*** We have shared our observations and recommendations in relation to general IT controls with management. In 2020, consistent with 2019, we were not able to rely on the general IT controls for our audit approach. Alternatively, we gained the required level of assurance from additional substantive audit procedures.

2. Goodwill impairment – Cash Generation Unit Automotive	
DESCRIPTION	***HOW THE KEY AUDIT MATTER WAS ADDRESSED IN THE AUDIT***
Goodwill represents 27% of the balance sheet and 57% of total equity. The goodwill related to the Cash Generation Unit ("CGU") Automotive is 51% of the total goodwill.	Based on our materiality level, the requirements in IFRS and the applicable auditing standards, we have audited the impairment analysis in relation to the valuation of the goodwill of the Automotive CGU. We have mainly adopted a substantive audit approach and did not rely on internal controls.

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The audit procedures carried out on the valuation of goodwill are regarded as a key audit matter due to the relative significance of the account as well as the deteriorated financial performance of the Automotive CGU over the last years and the impact that COVID-19 had on the automotive segment in 2020. As a result of deteriorated financial performance over the last years, the headroom (difference between the expected value of the future cash flows and the carrying amount) decreased. Reason for us to mark the valuation of the goodwill within Automotive as a key audit matter in our audit. Within the other CGU's sufficient headroom exists. In addition, the valuation of goodwill is susceptible to management judgment and estimates and is based on assumptions that are affected by future market and economic conditions. The assumptions in relation to the expected future cash flows are predominantly based on the approved budget for 2021. For the period thereafter (2022-2025) the company prepared a midterm business plan. The results of the impairment analysis are most sensitive to: • Revenue growth • EBITDA margin development • WACC	Our audit procedures have mainly focused on: • Testing design and implementation of management's process and control around the impairment analysis. • Evaluate the impairment model used by the Company and verified the mathematical accuracy of this model. • Obtaining and evaluating independent market research reports and comparing the general growth data to Kendrion's expectations. • Obtaining and evaluating the budget of 2021 and the midterm plan that are approved by the Supervisory Board. • Assessment of the key assumptions in the impairment model and discuss the results thereof with the division management, Executive Board and the Supervisory Board. • Assessment of the management estimate in relation to the budget of prior years based on the actual financial results (back-testing). • Assessment of the methodologies, calculated WACC and the long-term growth percentage, using internal valuation experts. • Reconciling the already contracted revenue to underlying source documents (like signed contracts) and challenge management on their expectation on the pipeline (i.e chance to win, production volumes of OEM's and future sales price development). • Assessment of the anticipated improvement in EBITDA in comparison to the realized EBITDA in 2020 and the expected improvement in the operations. • The accuracy and completeness of the related disclosures in the annual report. • Performing sensitivity analysis based upon different scenarios with respect to the revenue growth, EBITDA and WACC.

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

3. Purchase Price Allocation INTORQ acquisition	
DESCRIPTION	***HOW THE KEY AUDIT MATTER WAS ADDRESSED IN THE AUDIT***
On January 8, 2020, Kendrion completed the acquisition of INTORQ. The total Purchase Price of INTORQ was EUR 80 million of which EUR 25.7 million was allocated as Goodwill. Due to its significance we have reported this as a key audit matter. The acquisition has a number of implications for our audit. Firstly, auditing the determination of the purchase price, and the necessary "Purchase Price Allocation". In addition to auditing the transaction itself, we have to plan the nature, timing and extent of the audit of the INTORQ activities and entities in accordance with the audit standard (the so-called ISA 600-group audit).	Based on the requirements of IFRS 3, we audited the recognition of the acquisition for which we used a substantive approach. We inspected the Share Purchase Agreement and validated that the purchase price is paid to the seller. An important element in the "Purchase Price Allocation" is the identification and valuation of the acquired (intangible) assets and liabilities. We audited the identification of (intangible) assets and liabilities based on our knowledge of the operational activities of INTORQ and the reasons for the acquisition and used internal valuation experts to validate the valuation based on general accepted valuation models. We recalculated the amount of goodwill to be recognized and assessed the allocation to cash-generating units. We also validated the sufficiency of the disclosures in the annual accounts in relation to the acquisition. We further gained insights in the activities and business processes of INTORQ to enable detailed risk analyses.

	The audit procedures in relation to those risks are mainly performed on a substantive basis by component auditors in Germany and China. The component auditors tested the relevant internal controls within INTORQ. Relevant findings have been included in a management letter. On group level, we additionally tested the design and implementation of internal control measures in relation to INTORQ focused on the consolidation and financial reporting.
	OBSERVATION
	Based on our materiality and procedures performed, we are of the opinion that the recognition of the acquisition of INTORQ is in line with the requirements of IFRS 3 and that the acquisition is adequately disclosed in the 2020 annual accounts in order to meet the information needs of the users.

4. Bank covenants	
DESCRIPTION	***HOW THE KEY AUDIT MATTER WAS ADDRESSED IN THE AUDIT***
In August 2020, Kendrion has reached an agreement on key terms with its banking syndicate to increase the leverage covenant for the quarters up to and including the fourth quarter of 2021. The agreement in principle allows for a total net debt (including IFRS 16) to EBITDA ratio of maximum 5.8 as per the end of Q1 2021 gradually decreasing to 3.25 from December 31, 2021 onwards. Although Kendrion currently operates well within its existing leverage covenants, we deem this to be key audit matter as there are relevant accounting and disclosure requirements related to this. At the end of 2020, the leverage ratio (based on definitions in the existing loan documentation) was 2.3 against a permitted financial covenant level of 4.70.	Based on our materiality level, the requirements in IFRS and the applicable auditing standards, we have audited the revised bank agreements. We have mainly adopted a substantive audit approach and did not rely on internal controls. Our audit procedures have mainly focused on: • Obtaining and evaluating the revised loan agreements. • Evaluate the accounting treatment of the additional amendment fee paid to the lenders. • Recalculated management calculation for the net debt to equity ratio and verified that the ratio is below the maximum agreed ration per December 31, 2020. • Verified that management operates in compliance with the revised agreement.

	• Assess that the disclosure in footnote 11 is accurate and complete and in accordance with the revised loan agreement.
	OBSERVATION
	Based on the procedures performed, we are of the opinion that the accounting followed by Kendrion is in accordance with IFRS and deem the related disclosures in the annual report sufficiently insightful to point the users of the annual report to the existing covenants.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

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

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

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

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

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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.

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

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

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

Eindhoven, February 18, 2021

Deloitte Accountants B.V.

Initials for identification purposes:

B. Beemer