

Kendrion N.V.

Executive Board Remuneration Policy

1. Introduction

The remuneration policy for the members of the Executive Board of Kendrion N.V. (“**Kendrion**”) has been developed by the Supervisory Board. This new remuneration policy will be submitted and presented for adoption by the general meeting of shareholders (the “**General Meeting**”) at the General Meeting in April 2018 and, if adopted, applies to all payments made after the date of adoption.

The Supervisory Board is responsible for formulating and implementing the remuneration policy and determining the remuneration of individual members of the Executive Board. The main elements of the contract of a member of the Executive Board will be made public no later than the date of the convocation notice for the General Meeting where the appointment of the member of the Executive Board concerned will be proposed.

The Supervisory Board has developed proposals for the remuneration of the members of the Executive Board based on a comparative study of employment terms and conditions in the market for a reference group of companies (excluding financial services companies and real estate companies) admitted to listing on NYSE Euronext Amsterdam (ASCX), taking into account Kendrion’s size (in terms of revenues, average market capitalisation, total assets and number of FTE) and complexity, its industrial market position and short-term and long-term value creation, geographic scope and labour market competition.

The remuneration policy is reviewed at least every four years by the HR Committee of the Supervisory Board at the instruction of the Supervisory Board.

2. Remuneration principles

The remuneration policy serves to recruit, motivate and retain qualified and experienced executives in order to deliver Kendrion’s strategy. In addition, the remuneration policy aims to further enhance the link between pay and performance and align the interests of the members of the Executive Board with the shareholders’ interests – and other stakeholders’ interests – and focus on the sustainable delivery of high performance over the long-term by stimulating share ownership whilst adhering to the applicable standards of good corporate governance.

The remuneration structure and level for the members of the Executive Board is set at the median level relative to the reference group of companies admitted to listing on NYSE Euronext Amsterdam (ASCX) and strives to achieve an appropriate balance between Kendrion’s annual plan and budget on the one hand and the long-term strategy on the other hand. The remuneration package consists of the following elements: (i) base salary, (ii) short-term incentive, (iii) long-term incentive, and (iv) other benefits such as pension contributions.

The remuneration policy has a performance-oriented design, whereby results and performance are used to determine short-term and long-term incentives that are of a challenging and appropriate level. The short-term and long-term incentives are based on predetermined, specific and measurable performance criteria. The short-term and long-term incentives are appropriate in relation to the base salary and take into account the pay ratios within Kendrion.

The Supervisory Board is authorised to adjust the amount of the short-term and long-term incentives to an appropriate level should payment thereof result in unreasonable or unequitable remuneration. In addition, a so-called claw-back provision applies pursuant to which the Supervisory Board has the authority to recover in whole or in part short-term and long-term incentives awarded to members of the Executive Board should it transpire that such incentives were unjustifiably awarded on the basis of incorrect information.

3. Base salary

Members of the Executive Board receive a base salary, the amount of which is in line with the general remuneration principles of this remuneration policy, and payable in cash on a monthly basis. Base salary levels may be adjusted based on general market movement (to be reviewed at least every four years) and Dutch inflation rates (to be reviewed on an annual basis).

4. Short-term incentive

4.1 – General

The short-term incentive is payable in cash, the amount of which is based on the achievement of predetermined, specific and measurable financial and non-financial driven performance criteria.

The short-term incentive target amount is set at:

- CEO:** 40% of annual gross base salary for the CEO
- CFO:** 35% of annual gross base salary for the CFO

4.2 – Performance incentive zone

The amount of the payout of the short-term incentive for the achievement of the performance criteria is maximised at 150% of the short-term incentive target amount.

In the case of performance equal to the threshold performance of the relevant performance criterion, the payout of the short-term incentive will be equal to 50% of the relevant target amount. A linear curve will be applied to calculate the payout between threshold performance and maximum performance.

In the case of performance below the threshold performance of the relevant performance criterion, the amount of the payout of the short-term incentive will be equal to zero.

4.3 – Performance criteria

The short-term incentive performance criteria are annually determined by the Supervisory Board and comprise financial driven performance criteria and non-financial performance criteria.

4.3.1 – Financial performance criteria

The financial driven performance criteria determine 60% of the short-term incentive. Each year the Supervisory Board selects three financial driven performance criteria from the list below that apply to the relevant performance year with a view to incentivising year-on-year delivery of short-term financial objectives that support Kendrion’s overall annual objectives. In exceptional circumstances the Supervisory Board can deviate from the foregoing and select four financial driven performance criteria from the list below that apply to the relevant performance year.

The Supervisory Board may allocate different weight percentages to the different financial performance criteria it selects for a particular year, provided a minimum weight of 10% shall apply to each financial performance criterion.

- List of financial driven performance criteria**
- net profit
- return on sales (ROS)
- average return on capital employed
- organic growth
- free cash flow
- EBITDA

4.3.2 – Non-financial performance criteria

The non-financial performance criteria determine 40% of the short-term incentive. Each year the Supervisory Board selects a certain number of non-financial performance criteria derived from Kendrion's strategic priorities and an appropriate payout scheme.

Achievement of each individual non-financial performance criterion will be measured by applying a binary scoring model. The amount of the payout for the achievement of non-financial performance criteria depends on the number of non-performance criteria achieved.

The amount of the payout for the achievement of non-financial performance criteria will be equal to 150% of the short-term incentive target amount if all selected non-performance criteria are achieved.

If the achievement of non-financial performance criteria falls below a certain minimum threshold number of selected non-financial performance criteria, the amount of the payout will be equal to zero.

A step curve will be applied to calculate the payout between the achievement of the minimum threshold number of selected non-financial performance criteria and achievement of all selected non-financial performance criteria.

4.4 – Investment of part of the short-term incentive earned

Members of the Executive Board have to invest at least 20% of the net amount of the payout of the short-term incentive earned until the required ownership level has been reached as prescribed under the 'Share ownership guideline' (as described below).

5. Long-term incentive

The long-term incentive incentivises members of the Executive Board to focus on long-term sustainable value for shareholders and other stakeholders; it thereby also serves to align the interests of the members of the Executive Board with the long-term interests of shareholders and other stakeholders.

The members of the Executive Board are eligible for a grant of conditional performance shares. The actual number of performance shares is determined by the Supervisory Board in accordance with the provisions of this remuneration policy. The conditional performance shares will vest upon achievement of performance measured over a period of three years following the grant date, and are restricted by a holding period for another two years after vesting.

The size of the award is defined as a percentage of the annual gross base salary of the relevant Executive Board member as per the grant date, where the actual grant is determined by this percentage and the average share price of the last quarter of the year immediately preceding the year of the grant date.

The target value at grant date is set at the following maximum:

	Target value
CEO	55% of the annual gross base salary of the CEO as per the grant date
CFO	50% of the annual gross base salary of the CFO as per the grant date

The vesting percentage of the performance shares is conditional upon the achievement of performance measured as:

Weight	Performance measure
40%	1. relative total shareholder return (TSR);
40%	2. basic earnings per share (EPS); and
20%	3. a non-financial measure in the area of sustainability.

Relative TSR

The relative TSR will be measured against the performance of twelve selected TSR peer companies included in Annex 1 (TSR Performance Peer Group).

Kendrion's ranking, after three years, determines the number of performance shares that vest, in accordance with the following performance incentive zone:

Ranking	13	12	11	10	9	8	7	6	5	4	3	2	1
Vesting	0%	0%	0%	0%	0%	50%	75%	100%	100%	125%	150%	150%	150%

The calculation to determine Kendrion's ranking shall be conducted by an external independent and reputable specialised firm designated by the Supervisory Board.

Financial measure – EPS

EPS is calculated by dividing the profit or loss attributable to shareholders of Kendrion by the weighted average number of shares outstanding during the relevant twelve-month period.

Non-financial measure – sustainability

The non-financial measure in the area of sustainability shall be determined taking into account Kendrion's Corporate Social Responsibility programme.

Performance incentive zone for EPS and non-financial measure

The performance incentive zone for EPS and the non-financial performance measure in the area of sustainability shall be set by the Supervisory Board between zero and 150% of the on-target level.

The actual performance incentive zones will be disclosed after the expiry of the relevant three-year performance period.

6. Pension and other benefits

Kendrion bears the cost of contributions for the retirement pension and risk premiums for partner pension and disability cover for members of the Executive Board and annually makes a maximum gross amount of EUR 75,000 available for this purpose. This amount may be adjusted based on market developments.

No schemes have been agreed for the voluntary early retirement of members of the Executive Board.

7. Share ownership guideline

Kendrion applies a share ownership guideline for members of the Executive Board of 100% of the annual gross base salary for the CEO and 50% of the annual gross base salary for the CFO. This shareholding has to be gradually built up with performance shares earned under the long-term incentive, although it is permitted to sell shares to finance taxes due at the date of vesting of the performance shares, and by shares purchased with 20% of the net amount of the payout of the short-term incentive.

8. Policy in case of change of control

Unvested performance shares awarded shall be deemed vested as per the date of the change of control assuming on target performance, subject to: (i) pro rating to reflect the proportion of the normal performance period that has elapsed as per the date of the change of control, and (ii) the discretionary authority of the Supervisory Board to determine otherwise, should such deemed vesting of performance shares result in unreasonable or unequitable remuneration.

9. Severance payment

In the event of termination of the contract on Kendrion's initiative, the severance payment for members of the Executive Board is maximised at one year's gross annual base salary (i.e. excluding short-term and long-term incentive and other elements such as pension contributions). The members of the Executive Board are not entitled to a severance payment if the contract is terminated for cause (i.e. seriously culpable or negligent behaviour on the part of the Executive Board member) or if the contract is terminated at the initiative of the Executive Board member.

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ANNEX 1
(TSR Performance Peer Group)

#	Company	Activity	HQ	Listed
1.	Schneider Electric SE	Energy management / automation	FR	Paris
2.	Eaton Corporation plc	Actuators, valves, brakes, hydraulics etc. for industrial and automotive	IR	New York
3.	Sensata Technologies Holding NV	Sensors and controls for automotive, commercial vehicles and industrial	US	New York
4.	Aalbers Industries NV	Industrial fragmented	NL	Amsterdam
5.	Emerson Electric Co	Industrial automation	US	New York
6.	Continental AG	Automotive	GE	Frankfurt
7.	Schaeffler AG	Automotive	GE	Frankfurt
8.	TKH Group NV	Industrial	NL	Amsterdam
9.	Wabco Holdings Inc	Commercial vehicles part supplier	BE	New York
10.	Borg Warner Inc	Automotive, commercial vehicles	US	New York
11.	SKF AB	Bearings, seals, mechanical transmission	SW	Stockholm
12.	Phoenix Mecano AG	Electronic components, actuators	CH	Zurich
13.*	<i>Grammer AG</i>	<i>Seating automotive commercial vehicles</i>	<i>GE</i>	<i>Frankfurt</i>
14.*	<i>Regal Beloit</i>	<i>Electric motors</i>	<i>FR</i>	<i>Paris</i>
15.*	<i>IMI Plc</i>	<i>Fluid control</i>	<i>UK</i>	<i>London</i>

* Companies 13, 14 and 15 will be used as replacement companies in the case of delisting or other corporate events in respect of any of the selected TSR peer companies during the relevant performance period.