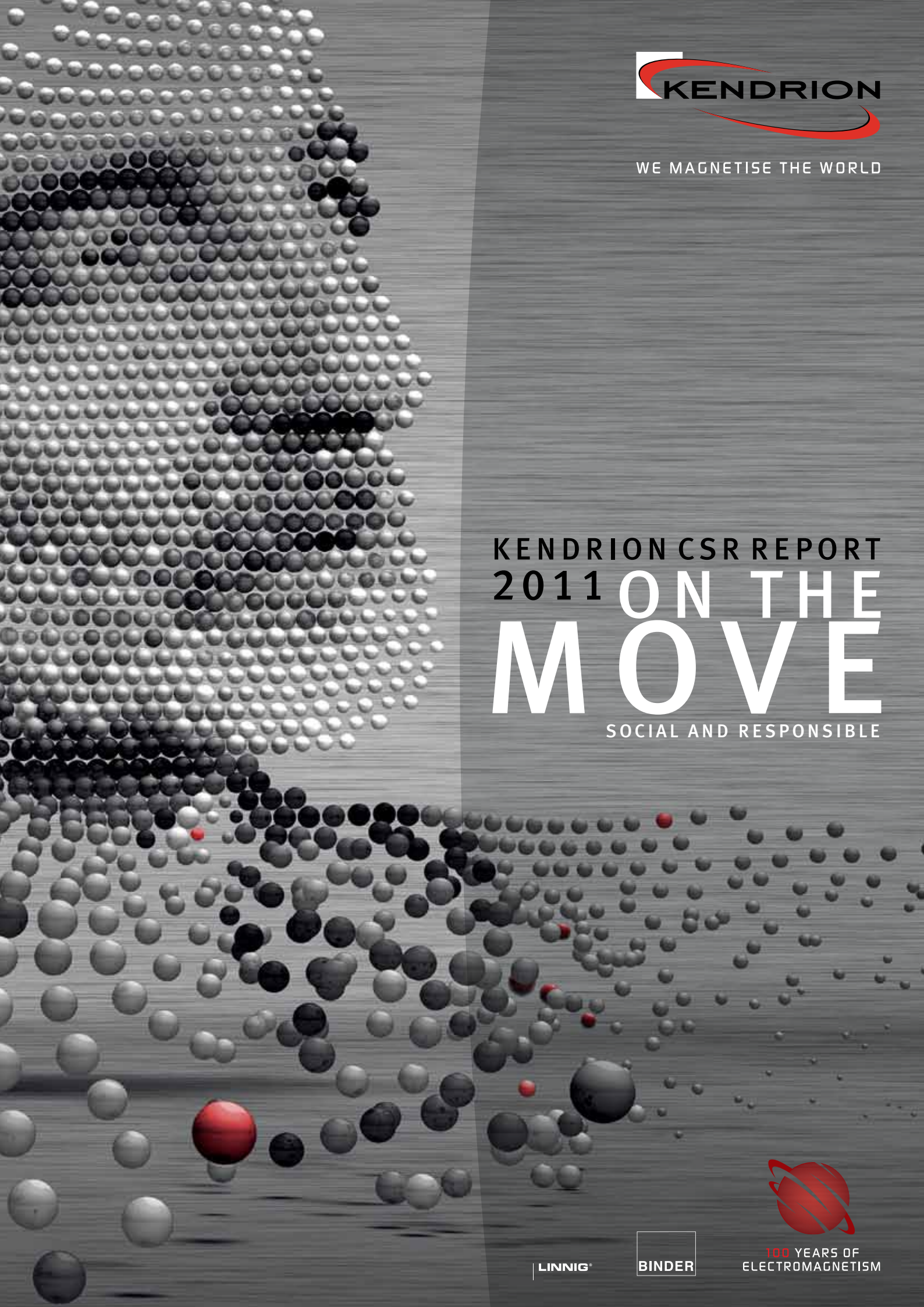




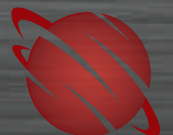
WE MAGNETISE THE WORLD

KENDRION CSR REPORT  
2011 **ON THE  
MOVE**  
SOCIAL AND RESPONSIBLE



LINNIG®

BINDER



100 YEARS OF  
ELECTROMAGNETISM

# Contents



*It all started in 1911 when the company's founder, Wilhelm Binder, barely twenty years old, had a vision: to create his own company, Binder und Moog Werkzeuge GmbH in Villingen, Germany. In 1938, his son, Dr. Wilhelm Binder Jr, joined the company and in 1953, after his father's death, he took over management of the company. Dr. Wilhelm Binder has had no problems filling his father's shoes. The company has thrived under his leadership, expanding its operations and initiating new research and development, and acquiring more than 40 patents. In 2011, under the banner '100 years of electromagnetism', Kendrion celebrated its origin. A portrait of Dr. Wilhelm Binder features on the cover of this CSR Report.*

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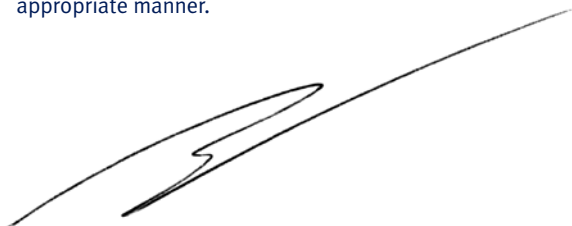
# Preface

## *Kendrion with sustainability in its veins: this is our objective*

Our engineers develop products which reduce fuel consumption and CO<sub>2</sub> emissions. Our customers greatly appreciate our work. In our endeavours to focus on sustainability in the value chain, we have also begun to generate our suppliers' awareness of the issue and have requested them to live up to our values. In addition, we also put our organisation under a magnifying glass to review how we consume energy, how we deal with waste and what we can offer our employees in terms of working conditions and training, etc.

All these efforts will result in an improvement of our worldwide working environment and will develop our organisation and staff even further – not only at the top of the company, but at all levels and at all locations. Moreover, this development will also improve our competitive position. It is also highly compatible with our strategy of evolving into the world's leading player in our field.

We hope that you will enjoy reading this first Kendrion CSR Report, which reviews many of the results already achieved in the past years and specifies the targets for 2012. We trust that this report will provide you, as a Kendrion stakeholder, a thorough insight into our efforts and that you will share our opinion that Kendrion is assuming the company's responsibilities in the appropriate manner.



Eiko Ris

CFO Kendrion N.V. and Chairman of the CSR Board







## Profile & organisation

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### **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 engines, air-conditioning installations, motor cooling systems and beverage dispensers. Kendrion's key customers include Bosch, Siemens, Daimler, Continental, Delphi, Evobus, Hyundai and Yutong.

## ***Mission***

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

## ***Strategy***

**KENDRION**'s policy is focused on the creation of sustainable added value and the achievement of appealing return on investment for the company as a whole. This is based on a powerful focus on a number of selected operations and on profitable growth achieved both organically and via acquisitions. Kendrion's objective is to evolve from a European player into a global player. Within this context, China, India and the USA 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 its 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.

**KENDRION** always devotes a great deal of attention to the company's Mid-Term Plans. The new 2012 – 2014 Mid-Term Plan focuses on the reinforcement of Kendrion's internal organisation to improve the company's leading position as component supplier in clearly defined niche markets during the coming years. More information about the new Mid-Term Plan, 'Entering another league', is available on page 24 of the 2011 Annual Report.

# Kendrion at a glance – key figures

EUR million, unless otherwise stated

## Operations

### Revenue

2010	221.9	
2011	267.9	↑ +21%

### Operating result before amortisation (EBITA) <sup>4,6</sup>

2010	24.2	
2011	30.7	↑ +27%

### Operating result before depreciation and amortisation (EBITDA) <sup>6</sup>

2010	32.9	
2011	40.0	↑ +22%

### Normalised net profit <sup>2</sup>

2010	14.8	
2011	20.5	↑ +39%

### EBITA <sup>4,6</sup>/invested capital <sup>4,5</sup> (ROI)

2010	18.7%	
2011	22.2%	↑ +19%

### Net investments

2010	8.9	
2011	13.5	↑ +52%

### Depreciation and amortisation

2010	10.1	
2011	10.8	↑ +7%

### Solvency (total equity/balance sheet total)

2010	64.7%	
2011	40.0%	↓ -38%

### Working capital in % of revenue <sup>3,8</sup>

2010	11.7%	
2011	11.8%	↑ +1%

## Share information <sup>2</sup>

### Normalised net profit per share (EUR)

2010	1.30	
2011	1.79	↑ +38%

EUR million, unless otherwise stated

	2011	2010
Normalised net profit <sup>2</sup>	20.5	14.8
Organic growth	20.7%	42.9%
Net interest-bearing debt	25.9	5.2
Net interest-bearing debt / equity (gearing)	0.28	0.05
Net interest-bearing debt / operating result before depreciation and amortisation (EBITDA) <sup>5,6</sup>	(0.07)	0.16
Operating result before amortisation (EBITA) <sup>4,6</sup> / net finance costs	15.3	8.1
Outstanding shares at year-end (x 1,000)	11,493	11,316

## Realisation of targets

Organic growth		Solvency		Free cash flow <sup>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	20.7%	Actual	40%	Actual	71%
Return on Sales <sup>6</sup> (ROS)		Ratio of interest-bearing debt and EBITDA		Dividend distribution	
Target	> 10.0%	Target	< 3.00	Target	between 35-50% of net profit
Actual	11.5%	Actual	0.60	Actual	35% of normalised net profit
Return on invested capital <sup>4, 6</sup>					
Target	> 17.5%				
Actual	22.2%				

<sup>1</sup> EBITA excluding amortisation related to acquisitions (part of other intangible assets).

<sup>2</sup> Excluding EC fine and a.o. acquisition expenses in 2011 (2010 excluding incidental tax benefit).

<sup>3</sup> Working capital and revenue are excluding FAS Controls, Inc.

<sup>4</sup> Total invested capital is property, plant and equipment, intangible assets and current assets less the current tax liabilities, trade payables and other payables.

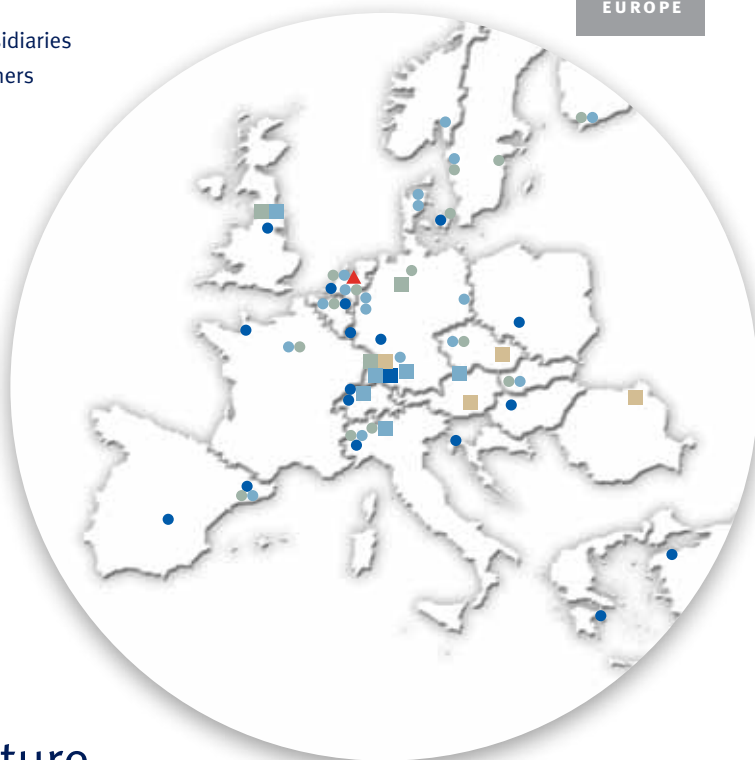
<sup>5</sup> Net interest-bearing debt, working capital and invested capital is excluding FAS Controls, Inc.

<sup>6</sup> Excluding EC fine and a.o. acquisition expenses in 2011.

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

<sup>8</sup> Excluding an earn-out liability at year-end 2010.

- |  |   |
|--|---|
| <span style="color: #4F81BD;">■</span> Industrial Magnetic Systems | <span style="border: 1px solid black; display: inline-block; width: 10px; height: 10px;"></span> Subsidiaries                 |
| <span style="color: #669966;">■</span> Industrial Drive Systems    | <span style="border: 1px solid black; border-radius: 50%; display: inline-block; width: 10px; height: 10px;"></span> Partners |
| <span style="color: #C4A04D;">■</span> Passenger Car Systems       |   |
| <span style="color: #0056B3;">■</span> Commercial Vehicle Systems  |   |
| <span style="color: #E67E22;">▲</span> Kendrion N.V.               |   |



## Organisational structure

Kendrion N.V.'s headquarter is in Zeist, the Netherlands. The company has operations in Germany, Austria, Switzerland, Italy, the Czech Republic, Romania, the UK, USA, China, Mexico, Brazil and India. Kendrion has a total of approximately 1,800 employees (including 200 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.

In January 2012, Kendrion received an award for the best performing share of the NYSE Euronext Amsterdam Stock Exchange's Small Cap Index (AscX), with an overall return of approximately 20%.

### »» 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

The Industrial Magnetic Systems business unit develops and manufactures electromagnetic systems for industrial applications including mechanical engineering, energy distribution, process automation, doors and safety technology, medical equipment and the beverages industry. The business unit's products make use of the most advanced technology and comply with the most stringent reliability and precision requirements.

The business unit's head office is located in Donaueschingen (Germany) and the business unit has production facilities in Germany, Romania, the USA and China. In addition, the business unit has sales organisations in the UK, Austria, Switzerland and Italy. The other major European markets are covered by sales partners and distributors.

#### ■ Industrial Drive Systems

The Industrial Drive Systems business unit develops and manufactures electromagnetic brakes and clutches for industrial drive systems that accelerate, retard, position, hold and secure movable drive components and loads. The primary applications for the business unit's products are robotics and process-automation technology, machine construction and production machines, machine control and lift technology. The business unit's head office and production location are located at Villingen (Germany) and it also has a sales organisation in Bradford (UK) as well as a production location in Aerzen (Germany). The other major European markets are covered by sales partners and distributors. The business unit also conducts sales activities via Suzhou (China).

During the coming years the business unit will focus on two key markets, namely process automation and the generation of sustainable energy, the markets where the most important developments are foreseen in the global industry. The increasing use of technology for the generation of sustainable energy, a global trend, has opened an attractive new segment of the market to the business unit.

### ■ Passenger Car Systems

The Passenger Car Systems business unit develops and manufactures electromagnetic components for applications in the automotive industry. The business unit is globally renowned as a competent development and engineering partner and has production facilities in Germany, Austria, the Czech Republic, the USA and China. All products are developed and designed in accordance with the customer's specific needs, whereby great emphasis is placed on performance and reliability.

The business unit's operations are conducted on the basis of an explicit strategy which addresses niche markets by offering them innovative technological solutions in the fields of switching solenoids, braking systems and advanced valve technology (common rail). In addition, the business unit also develops and manufactures electromagnetic components for hydraulic systems.

At the end of 2011, the US FAS Controls, Inc. company joined the Passenger Car Systems business unit.

The business unit's product portfolio is tailored precisely to the current trends in the market: motor management, downsizing, switchable units, fuel efficiency and CO<sub>2</sub> reduction. Further growth in the worldwide electromagnetic component market is expected due to new applications in environmental protection, aggregates that can be switched on/off and common rail / gasoline technology that minimises emissions. New hybrid and electric cars create new market segments that are favourable to Passenger Car Systems.

### ■ Commercial Vehicle Systems

Commercial Vehicle Systems develops and manufactures components and complete cooling systems for buses, trucks and special vehicles. Main products include fan clutches for engine cooling, compressor clutches for vehicle air-conditioning and air pressure, vibration dampers for crankshaft applications, fan clutches with angle gear for cooling, pneumatic and hydraulic clutches, brakes and belt tensioners. The business unit is also penetrating other markets with existing applications, for example the gensets.

The business unit's customers include all major OEMs in the global bus market and all first-line suppliers of air-conditioning systems, as well as manufacturers of refuse collection vehicles, agricultural vehicles, railway vehicles, and specialised vehicles such as piste bullies for the preparation of ski pistes. Commercial Vehicle Systems has its head office (including production, R&D, sales and accounting) in Markdorf (Germany) and additional production, R&D and sales departments in Atlanta (USA), Mexico City (Mexico), São Paulo (Brazil) and Nanjing (China). Commercial Vehicle Systems has a global network of partners for distribution and service. In 2011, operations began in Pune (India).

The business unit's products help to reduce the fuel consumption of commercial vehicles and consequently contribute to lower vehicle emissions. The goal of the business unit's corporate philosophy is to provide answers for customers' technical issues by helping them to reduce fuel consumption using solutions mainly based on electromagnetic components.



Piet Veenema (CEO)



Eiko Ris (CFO)

## » Management

In 2011, Kendrion was managed by a Board comprised of three members, of whom two are Executive Directors, and was supervised by the Supervisory Board. The COO stepped down and left the Board at the beginning of 2012 and started as Chief Technology Officer, a new role in the company.

The Executive Board is currently comprised of two Directors: the CEO, Mr Piet Veenema (56), and the CFO, Mr Eiko Ris (53). Both are Dutch nationals. Mr Veenema began his duties at Kendrion in 1993, and in 2003 the General Meeting of Shareholders appointed him to the position of CEO for an indefinite period. Mr Ris began his duties at Kendrion in 2001, and in 2004 was appointed to the position of CFO for a four-year term. He was reappointed for the same term in 2008. A proposal will be submitted to the General Meeting of Shareholders, to be held on 16 April 2012, to reappoint him for a further four-year term.

The Executive Board is supported by 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 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, legal affairs and corporate governance.



## >> Supervisory Board

The Supervisory Board currently has four members.

**Mr S.J. van Kesteren** (70) is the Chairman of the Supervisory Board since 2005. He is member of the Remuneration Committee of Kendrion. Mr Van Kesteren is a Dutch national.

**Mr R.L. De Bakker** (61) was appointed a member of the Supervisory Board in June 2005. He is Vice-Chairman of the Supervisory Board and Chairman of the Audit Committee of Kendrion. Mr De Bakker is a Dutch national.

**Ms M.E.P. Sanders** (58) was appointed a member of the Supervisory Board in April 2005. At the General Meeting of Shareholders on 16 April 2012 it will be proposed to reappoint Ms Sanders for a period of four years. She is Chair of the Remuneration Committee of Kendrion. Ms Sanders is a Dutch national.

**Dr H.J. Kayser** (51) was appointed to the Supervisory Board during the Extraordinary General Meeting of Shareholders held in July 2009. He is a member of Kendrion's Audit Committee. 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 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.

# Corporate Social Responsibility – Mission and 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

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;
- Increasing urbanisation;
- Climate change;
- Increased transportation needs of people and goods; and
- Scarcity of highly educated (technical) people.

These trends offers also opportunities for Kendrion. 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.

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.

These trends and strategy have resulted in the definition of key issues for Kendrion (see page 16).



## » Un Global Compact

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

The Kendrion progress reports for 2010 and 2011 provided to the UN Global Compact organisation are available on Kendrion's website, under the 'CSR' section.



### The Ten Principles

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

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

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

#### Human Rights

*Principle 1:* Businesses should support and respect the protection of internationally proclaimed human rights; and

*Principle 2:* make sure that they are not complicit in human rights abuses.

#### Labour

*Principle 3:* Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

*Principle 4:* the elimination of all forms of forced and compulsory labour;

*Principle 5:* the effective abolition of child labour; and

*Principle 6:* the elimination of discrimination in respect of employment and occupation.

#### Environment

*Principle 7:* Businesses should support a precautionary approach to environmental challenges;

*Principle 8:* undertake initiatives to promote greater environmental responsibility; and

*Principle 9:* encourage the development and diffusion of environmentally friendly technologies.

#### Anti-Corruption

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

## » 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.

## BUILDING KNOWLEDGE

As part of the Kendrion Human Resources development programme the management follows a comprehensive training course at the Rotterdam School of Management in the Netherlands, comprising of a series of management and leadership modules: the Kendrion Executive Programme. The Kendrion Executive Programme is a customised, international modular teaching programme. The full programme consist of six modules around HRM, production, quality, logistics & supply chain management, marketing & sales and strategy. For each of the modules a Board of Staff member acts as a so-called sponsor, who is not only involved in preparing the course but also has an active role to play when the participants meet in Rotterdam.

*Photo: Ronald van den Heerik, copyright RSM.*



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. In 2011, no irregularities were reported within the context of the Whistleblower's Charter.

#### **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.

In addition to the Code of Conduct and environmental management systems, Kendrion has also adopted a number of other internal regulations governing integrity and business ethics.

#### **Regulations to prevent insider trading**

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

#### **Rules and Regulations**

Kendrion employs Rules and Regulations and Letters of Representation. The Rules and Regulations constitute rules of behaviour governing all Kendrion Managing Directors.

#### **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 2011 Annual Report, pages 30-38.

# CSR Board

## » Installation

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, in part by appointing a CSR Board. The Board was chaired by the COO in 2011, and is chaired by the CFO as from 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 is currently comprised of a total of eight members.

Name	Function	Focus
<b>Volker Buhl</b>	Sales Manager, Industrial Magnetic Systems, Inzigkofen-Engelswies, Germany	Sales and marketing
<b>Joachim Flühs</b>	Research & Development, Passenger Car Systems, Villingen, Germany	Sustainable product development
<b>Wijger Gooijer</b>	Legal Counsel / Company Secretary, Kendrion N.V., Zeist, the Netherlands	Coordinator / business ethics
<b>Bertram Heimgartner</b>	Head of Commercial Department, Commercial Vehicle Systems, Markdorf, Germany	Supply chain
<b>Beate Hermannstädter</b>	Marketing / Assistant of management, Industrial Drive Systems, Villingen, Germany	Communication
<b>Andreas Herzfeld</b>	Human Resources, Kendrion Binder Magnete GmbH, Villingen, Germany	Labour practices / health
<b>Heinz Jankowski</b>	Facility Manager, Kendrion Binder Magnete GmbH, Villingen, Germany	Environment / safety / facilities
<b>Wolfgang Mayer</b>	Head of Quality Department, Commercial Vehicle Systems, Villingen, Germany	Materials and waste reduction
<b>Eiko Ris</b>	Chief Financial Officer, Kendrion N.V., Zeist, the Netherlands	Chairman

## » 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 three times since the summer of 2011. The Board began by formulating an ambition statement, which is available on Kendrion's website. The Board has also organised a number of workshops, chaired by an external CSR consultant, to give consideration to the CSR themes of greatest relevance to Kendrion and to jointly adopt a number of realistic targets. 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. During the course of 2012, a number of plans of action will be executed for the achievement of the stipulated targets and the preparations for new targets in 2013 will be started. 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.

### »» Key issues

The key issues for Kendrion's internal 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; and
- Business ethics.

The CSR Board is focused exclusively on the internal business processes. It does not address the product portfolio directly.

The ambition statement, key issues, KPIs and targets for 2012 have been discussed by the Executive Committee and the Supervisory Board.



#### LESS FUEL, MORE POWER

In 2008, Kendrion Passenger Car Systems (PCS) began the development of a product for gasoline engines, similar to PCS' proven successful high and low pressure valves for common rail diesel engines. The spill valve was specially designed for gasoline direct injection technology, facilitating lower fuel consumption and higher efficiency for impressive overall performance improvement. In 2010, an initial Letter of Intent with a US-based company marked a break-through in the gasoline engine sector and, equally importantly, promising first steps on the American market.



# Stakeholder engagement and communication

## » 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.

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)).

## » 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 at the various units. Kendrion holds continual discussions with the company's customers about the results from these audits. Kendrion intends to provide an insight into the company's CSR efforts to its customers. For this reason a wide range of material to be published in the course of 2012, such as brochures, presentations and other correspondence, shall draw attention to the company's CSR policy and the relevant section on Kendrion's website. CSR will also be discussed during the regular contacts with Kendrion's customers.

Kendrion intends to assume even more responsibility for the chain in which the company operates. In the coming period the business units will enter into discussions with the suppliers and introduce Kendrion's own Supplier Code of Conduct.

## » Management and employees

Self-evidently, 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 will also be of essential importance.

Kendrion shall, in analogy with past years, devote continual attention to CSR issues in the Magnetised international staff magazine. Kendrion shall also review the extent to which CSR workshops can be organised at the various companies. In addition, during 2012 Kendrion shall develop a CSR intranet page offering employees more information about the company's CSR policy, the many CSR activities and tips.

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 the provision of information to the management teams in the countries in which Kendrion is active will be an important point for attention in 2012. The objective is to ensure that each Kendrion company continuously takes new initiatives, for example relating to energy conservation, business ethics or health programmes.

» **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.

» **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 such as the regional administrators and fire brigades. These contacts are important for reasons including the safety of the production facilities, accessibility, ties with the employees and the enhancement of local communities.

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



**WIND ENERGY**

The pitching system of a wind power plant is held and positioned by a Kendrion permanent magnet brake. When the pitches have to be repaired, the brake ensures they slow down smoothly.

# Environment

## » 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.

## » 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

For the time being Kendrion has decided that its energy consumption programme (targets for energy consumption and the relevant progress reports for the years to 2012 inclusive) shall focus on the company's five plants in Germany, the plant in Austria (Eibiswald) and the plant in the Czech Republic (Prostejov). Information about other plants shall be collected from next year and reviewed with the local management to assess targets for the relevant plant.

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

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

Energy consumption per EUR million turnover		2011	2010	Δ %
Power	kWH	51,238	57,530	(11)
Fuel oil	ltr	537	554	(3)
Natural gas	m <sup>3</sup>	1,721	1,959	(12)

### » Investments

In 2011, Kendrion invested more than EUR 700,000 in energy-efficient systems for the company's largest production plant in Villingen, Germany. 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. A further number of smaller projects which are also in progress include the reuse of the heat released by the Villingen plant's production process. In combination, these projects will result in relatively substantial energy savings of 3% in 2012 and more than 10% in 2013 per EUR million turnover.

### » 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 in 2010 and 2011 can be presented as follows:

CO <sub>2</sub> emissions		2011	2010	Δ %
Absolute emissions	t	5,518	5,655	(2.4)
Relative emissions	t / million turnover	23.2	32.8	(19.0)

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.

Energy scans to be carried out at other Kendrion plants in 2012 may result in defining more comprehensive targets for the reduction of their energy consumption and CO<sub>2</sub> emissions.

Data relating to indirect CO<sub>2</sub> emissions and emissions of SO<sub>2</sub>, NO<sub>x</sub> and VOCs are not being collected at present.

### » Water

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

### » Compliance

No instances are known of (presumed) violations of the environmental regulations by any of Kendrion's companies. No penalties have been imposed and no summons have been received.

### » 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 FAS Controls Inc. plant in Shelby, North Carolina, USA, became polluted by the operations of Kendrion FAS Controls Inc.'s 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 FAS Controls 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 Kendrion FAS Controls Inc.'s current operations are not polluting for humans or the environment.

# Materials and waste

In 2011, Kendrion used the following raw materials in the manufacture of the company's products:

Consumption of materials (in tons, best estimate)	2011	2010
Copper	1,600	1,200
Steel	1,000	900
Aluminium	800	700
Permanent magnets	25	20

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.

## » 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 the producer of more than 90% of the world's rare earth metals. China conducted a restrictive export policy in 2010 and 2011, 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. 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.



## » Waste

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 per plant, which measures are externally audited.

Although they do not have a major impact on the amount of waste due to the relatively low quantities used, in 2012 a number of small-scale initiatives will be taken to reduce the consumption of printing ink and paper. These measures can be implemented very simple and play a role in creating the employees' awareness of the need to reduce waste.

In 2012, 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.



### FILTRATION PUMP IN RENAL DIALYSIS

Renal dialysis is a medical process that becomes necessary when the normal functions of the kidneys become compromised by kidney failure. A Kendrion solenoid in the filtration pump pumps dialysate through the dialyzer so contaminants, toxic substances and water will be separated from the blood.

# Supply chain responsibility

## » 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.

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 stipulates 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.

A copy of the Kendrion's Supplier Code of Conduct will be available on Kendrion's website.

## » 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 do 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.

# Labour standards

## » 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 attaches importance to the creation of diversity in nationalities and cultures. This diversity promotes intercultural experience, which is highly compatible with the current internationalisation trend.

## » 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.

## » Number of employees

Kendrion has approximately 1,800 employees (including 200 temporary employees) in eight European countries and China, Mexico, Brazil, India and the USA.

## » 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.

CSR performance criteria have not been incorporated in the senior management's remuneration system to date, as Kendrion is of the opinion that this is feasible solely following the full implementation of the internal management system for the collection and evaluation of CSR information. Once the system has been implemented Kendrion shall review the expediency of expanding the criteria for the variable remuneration component to include CSR performance criteria based on reliable and transparent external benchmarks or internal targets.

The 100<sup>th</sup> anniversary and the vigorous development of the company in 2011 resulted in the decision to award a special bonus to all employees at the beginning of 2012. A number of major events were also organised for the employees to celebrate this anniversary in the appropriate manner.

## » Insight

Insight into the quality of the company's HR is at least as important as insight into Kendrion's financial health, since figures and results are the product of human action. Kendrion obtains this insight with an HR audit developed by the company. Competences, knowledge and experience, as well as the manner in which Kendrion deploys its employees, contribute to the company's continuity and decisiveness.

The audit provides insight into both hard HR indicators and somewhat softer issues. In addition, monthly HR key figures are reported for the entire company. Understanding of the influence of the human factor on the organisation's performance results in an increasingly strategic HR policy, and offers scope for specific modification.

### AWARD

In Germany, Kendrion received the Social Engagement Award from Baden-Württemberg's Department of Economic Affairs in 2011.

Leistung  
Engagement  
Anerkennung



Mittelstandspreis für soziale  
Verantwortung in Baden-Württemberg

SOZIAL ENGAGIERT

2010

# Urkunde

Die Caritas und das Wirtschaftsministerium Baden-Württemberg verleihen der

**Kendrion Binder Magnete GmbH  
in Villingen-Schwenningen**

im Rahmen des Mittelstandspreises für soziale Verantwortung den Titel

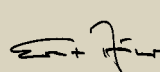
**SOZIAL ENGAGIERT 2010**

und danken für das gesellschaftliche Engagement.

Schirmherren

+ 

Bischof Dr. Gebhard Fürst  
Diözese Rottenburg-Stuttgart

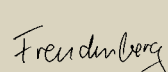
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Ernst Pfister MdL  
Wirtschaftsminister

Veranstalter



Msgr. Wolfgang Tripp  
Diözesancaritasdirektor



Dr. Hans Freudenberg  
Ministerialdirektor



Baden-Württemberg

## » 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 social policy is designed to enable the company to achieve its targets and offer its staff at all levels opportunities to develop and further themselves. 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.

<b>Personnel: key figures</b>	<b>2011<sup>1</sup></b>	<b>2010</b>
Total number of employees at 31 December	1,425	1,298
Number of women in permanent employment	450	413
Number of men in permanent employment	718	660
Average age of women	41.0	41.4
Average age of men	40.0	39.9
Average age of all employees	40.4	40.4
Average number of years' service	9.4	10.0
Average rate of absenteeism per employee (%)	2.9	2.5
Training costs (as a % of wage costs)	0.7	1.00

<sup>1</sup> Personnel 2011 is excluding the newly acquired FAS Controls, Inc., with 204 employees, 121 women and 83 men and 10 temporary employees.

## » 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. Approximately 20 managers graduated in the years up to 2011 inclusive. We expect that four managers will graduate in 2012.

Almost every year a group of non-financial managers follows a course in finance. This course, which is also customised, covers issues of importance to Kendrion, such as risk management, sales, investment decisions and planning and control. In addition, the various business units have implemented training programmes at all levels in the organisation.

Kendrion's management development endeavours to find an appropriate equilibrium between the transfer of internal knowledge and the recruitment of external knowledge.



A professional organisation of the nature of Kendrion must ensure for continuity. Consequently, the company needs to devote continual attention to the question as to who will succeed who and when, and what is required to ensure that the succession is a success. Obviously, the converse is also the case: Kendrion wishes to help people fulfil their ambitions: people are the most important factor, and Kendrion intends to invest in their future. Kendrion will also need a group of managers with a well-developed vision of strategy and internationalisation in the future. Kendrion endeavours to retain high potential managers and interest them in filling vacant positions.

A new and special program for selected high potential managers will start 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 documents this process in full. The process is scheduled for rollout to other business units and plants in 2012.

#### LEARNING 'ON THE JOB'

In Germany the company employs more than 70 apprentices and students. Most of them are trained 'on the job' to be industrial mechanics, mechatronics engineers or cutting mechanics. Some combine their jobs with their college studies. The aim is to coach these youngsters towards a permanent job within Kendrion, and 70% choose this option. Others decide to go back to college full time and finish a course at a higher level. At Kendrion trainees also learn from each other, and the same holds true for the local apprenticeship leaders.

In September 2012, 32 new apprentices and students will start their training. The Kendrion HR department organises recruitment activities throughout the year; in newspapers, at jobs fairs and with organised tours around the company, information sessions at schools and special events such as 'Girls' Day'.



### » Staff satisfaction

Annual staff-satisfaction surveys are conducted pursuant to the plans of the Passenger Car Systems business unit in Villingen, Germany. 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. The scores are as follows:

Staff satisfaction	2011	2010	2009
Points (maximum 100 points)	87.50	93.75	75.0

The Passenger Car Systems business unit's target stipulates the achievement of at least the same score in 2012. In addition, a pilot project to be initiated in 2012 will review the examination of staff satisfaction on a more individual basis, including the individual's work/life balance. 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. Kendrion bases these endeavours on the underlying principle of creating flexible solutions, on an individual basis, which have the ultimate objective of retaining the know-how and experience of employees, in particular women. Examples include working at home with adequate data connections.



#### KIDS@KENDRION ROOM

Organisational handstands are often necessary for parents to bring their home life into line with the high demands of their professional life. Despite careful planning, this may still not always work. That is why the business units Passenger Car Systems and Industrial Drive Systems introduced a so-called Kids@Kendrion room which provides an alternative to a missed day of work for a parent. Their aim is to further support parents with children in organising the appropriate work/life balance. Passenger Car Systems and Industrial Drive Systems are proud to be able to offer their employees at the Villingen location a parent-child workroom. Also because the team's diversity adds to the success of the company.

### » Diversity / discrimination

Kendrion's Code of Conduct expressly states that the company does not tolerate discrimination by gender, race, religious denomination, remuneration or any other means when hiring new staff or in dealings with staff in positions of equal importance. Kendrion promotes the formation of a workforce and lower and middle management that reflects the composition of the local population as closely as possible. The company's home market, Germany, and also the USA, have, in particular, implemented detailed and stringent anti-discrimination legislation. The German legislation includes the appointment of Anti-discrimination Officers, who can be consulted by employees with questions or concerns or who are the subject of discrimination. Kendrion strives to create a corporate culture that does not tolerate discrimination. No reports were made to these Anti-discrimination Officers in 2010 or 2011.

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 2011, Kendrion had employees of at least 35 nationalities.

Approximately 38% of all Kendrion's employees are women. The number of women in management positions of the company's operating companies (six) 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. Nevertheless, and in view of the importance of the issue, Kendrion has set a target stipulating that the number and percentage of women in management positions shall have been increased by the end of 2013. Kendrion is also closely following the political developments in this issue at both a national and European level.

### » 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. Kendrion has and wishes to maintain good relations with the works councils and the unions. 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.

# Health & safety

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 2010 and 2011 was:

Accidents <sup>1</sup>	2011	2010
Number of accidents	37	28
LTI (days)	359	366

<sup>1</sup> Including Kendrion FAS Controls Inc.

No fatal accidents have occurred in 2010 and 2011. In 2012 Kendrion intends to report on an LTI rate, based on the hours worked.

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

Kendrion's overall absenteeism rate was 2.9% in 2011 (2010: 2.5), 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 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 60% 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 review whether these courses can be repeated and/or rolled 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 2011, employees at 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.

In 2012, we shall review which of these initiatives designed to promote the health of our employees can be introduced at other Kendrion locations.

## AND THE WINNER IS...

At Kendrion we value innovative employee ideas. The Kendrion ideas forum, 'KENNI' for short, encourages employees to actively engage in the development and improvement of all aspects of their work.

With his special monthly award for the most innovative suggestion for improvement, Martin Kollmann – Managing Director of Kendrion Binder Magnete in Eibiswald, Austria – is sending a clear signal to his employees about the importance and value of active participation using all of your physical and mental powers. Again and again, he stresses that shortcomings should be seen as 'treasures', because they provide the basis for improvement.

Anna Sackl  
(Betriebsrat)

Andreas Kusstatscher  
(winner November 2011)

Martin Kollmann  
(Managing Director)





# Community investment

## » 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 50 sponsoring activities in 2011, 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 Southern Germany. Kendrion also organises regular meetings for its retired employees.

Kendrion has set the company a target stipulating the introduction of a sponsor policy during the course of 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, development and support of local communities. 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 intend to neglect this issue. One example is India, where a greenfield operation began in Pune in 2011. Kendrion is of the opinion that especially economic activity is of great importance to further growth. In addition, during the course of 2012 the company shall also assess the feasibility of the initiation or support of a project to enable deprived young people to follow a technical education. This is an example of the alignment of Kendrion's need for well-trained employees to the needs of the poor in India's society.



## » Support of local economies

Kendrion offers its employees good terms of employment which are in line with the local market and 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.

### RUNNING FOR A GOOD CAUSE

Kendrion was well represented at the 2011 'Stadtlauf Villingen' city run, with 31 participants (see picture). In total some 1,500 enthusiastic people of practically all ages took part in the 2.3 kilometre run through Villingen's historic city centre. The city run brought in more than EUR 12,000 for a community project that helps disabled people to find jobs and be part of society.



# 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.

The company's Code of Conduct expressly states that Kendrion 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.

Human rights are also assigned a prominent position in Kendrion's Supplier Code of Conduct (see also page 23).

Kendrion has not received any reports of any human rights abuses in 2010 or 2011 within the company or at its suppliers.



## SKI LIFT SAFETY

In close cooperation with an existing customer, Kendrion developed a system for ski lift safety. The system consists of a protective ski vest for children with at the back a holding magnet in combination with a magnet in the ski lift (see picture). In this cooperation with the customer, Kendrion brings the electromagnetism expertise, and the customer integrates the Kendrion components into the ski vest and provides for the marketing.

# Business ethics

## » General

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 2011.

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.

## » AB&C policy

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 will result in measures including the performance of further risk analyses and due diligence of business ethics when entering into new business relations. The company shall endeavour to develop a compliance workshop for the management and sales teams in the course of 2012. In addition, Kendrion will develop a protocol for dealing with any reports of potential fraud.

## » Other internal regulations

Kendrion has also, in accordance with the Dutch corporate governance regulations, developed regulations to prevent the use of insider knowledge and inappropriate trade in Kendrion's shares by the company's senior managers and members of the Supervisory Board.

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

## » Compliance

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

Kendrion is a member of the APM, the German Anti-Counterfeiting Association, a cross-industrial alliance for the protection of intellectual property rights. Well-known companies from different sectors participate in the APM to create the conditions required for the development of innovative activities and to benefit from effective protection. Kendrion is a member with the intention to contribute to fair business practices and protect its intellectual property rights and innovative products.

# Product responsibility

Kendrion adopts a passionate approach to the development of the appropriate products for its customers. Kendrion is in continual dialogue with its customers in the search for the best technical and economical solutions that take account of all the customers' needs and requirements.

This endeavour places Kendrion ahead of its competitors and at the forefront of technological development.

This motivation enables Kendrion to link the latest innovations to the highest productivity levels that characterise the company of today.

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. Kendrion has also taken out substantial product liability insurance with recall cover. The company's suppliers also undergo comprehensive screening to verify compliance with Kendrion's stringent quality standards.

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 11), 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.



## KENDRION IN CHINA

Production area of Kendrion's Suzhou plant in China, which is also ISO 14001 and ISO EN 9001 certified.



Kendrion is not aware of any incidents of non-compliance with regulations concerning health & safety impacts of products, product information or labelling or marketing communications. Kendrion did not receive any substantiated complaints regarding breaches of customer privacy and loss of data and did not receive any fines for non-compliance with laws and regulations concerning the provision and use of products and services in 2011.

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. 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.

## GENSETS

Engine heat is strongly affected by a number of different factors, including ambient temperatures and load profile. Our fan clutch lets you control the fan speed, so you can lower fuel consumption and CO<sub>2</sub> emissions, putting reduced operating costs at large volumes within your reach. For use in power units like power plants or hospital generators.



# Report parameters

This CSR Report 2011 is the first 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, business relations and other interested parties. The Report endeavours to provide a full and transparent insight into Kendrion's Corporate Social Responsibility efforts.

The Report reviews the results for the 2011 calendar year (in some instances in comparison with figures available for 2010), unless stated otherwise. The majority of the targets formulated in this Report relate to the 2012 calendar year.

This CSR Report encompasses all the Kendrion group's member companies. Kendrion also has 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, KPIs and targets formulated in the Report, were drawn up after comprehensive discussions with the CSR Board that was installed in 2011. 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 first Reporting year that can be refined incrementally in the coming years.

An internal management system to be implemented in 2012 is 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. Most of the 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 first Kendrion 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.

This CSR Report, in combination with the 2011 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 C requirements (self declared).

Report Application Level		C	C+	B	B+	A	A+
Standard Disclosures	Profile Disclosures <small>OUTPUT</small>	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 on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17		Same as requirement for Level B	
	Disclosures on Management Approach <small>OUTPUT</small>	Not Required	Report Externally Assured	Management Approach Disclosures for each Indicator Category	Report Externally Assured	Management Approach disclosed for each Indicator Category	Report Externally Assured
	Performance Indicators & Sector Supplement Performance Indicators <small>OUTPUT</small>	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.***		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)).

This Report has not yet been reviewed by the GRI organisation; this is scheduled for the second quarter of 2012.

Kendrion has become a participant in the Supply Chain Benchmark study being carried out by the VBDO, the Dutch Association of Investors for Sustainable Development. Kendrion also 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 137<sup>th</sup>. Kendrion is of the opinion that this is a satisfactory 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 2011 Annual Report and 2011 Annual Magazine have also been published on the website.



**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.

# Facts & figures

## Corporate Social Responsibility



## Human Resources





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