

**KENDRION N.V.**

**REMUNERATION POLICY**

## **PART A – EXECUTIVE BOARD REMUNERATION POLICY**

### **General**

The remuneration policy for the members of the Executive Board of Kendrion N.V. (“**Kendrion**”) has been developed by the Supervisory Board. The current remuneration policy for the members of the Executive Board was adopted by the general meeting of shareholders (the “**General Meeting**”) in April 2018. In order to align the remuneration policy to the Dutch Act implementing the EU Shareholders’ Rights Directive that became effective as at 1 December 2019, a new remuneration policy will be submitted and presented for adoption at the General Meeting in April 2020. The remuneration policy that will be submitted to the General Meeting in April 2020 does not comprise a value change to the remuneration packages of members of the Executive Board.

The Executive Board remuneration policy is comprehensively evaluated at least once every four years by the Supervisory Board. The HR Committee will continue to keep the Supervisory Board informed of relevant market and legislative developments in order to support the periodic evaluation of the remuneration policy and related decision-making.

### **Objectives**

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

Taking account of Kendrion’s size (in terms of revenues, average market capitalisation, total assets and number of FTE), its industrial market position, geographical scope and labour market competition, the companies included in the AScX Index on Euronext Amsterdam are defined as reference group. Financial services, real estate and movies and entertainment companies are excluded from the reference group. Within the defined reference group, Kendrion is positioned around the median in terms of the average of the abovementioned parameters revenues, average market capitalisation, total assets and number of FTE. The remuneration structure and level for the Executive Board is set at the median level relative to the reference group.

The remuneration policy does not contain variable incentives that may be detrimental to the responsibilities of the Executive Board in defining and achieving Kendrion’s long-term value creation strategy.

### **Temporary deviations remuneration policy**

In exceptional circumstances, the Supervisory Board can decide to temporarily deviate from the remuneration policy for members of the Executive Board. Exceptional circumstances means circumstances in which a deviation is considered necessary to serve the long-term interests and sustainability of Kendrion or to otherwise ensure its viability.

Depending on the exceptional circumstances, the Supervisory Board can resolve to deviate from any or all of the four remuneration components included in the remuneration policy for members of the Executive Board.

When considering a temporary deviation from the remuneration policy, the Supervisory Board shall take into account Kendrion's long-term value creation strategy, ongoing business and operational requirements as well as the financial situation of Kendrion. In addition, the deviation considered should be assessed in light of the principles of reasonableness and fairness.

Upon having resolved a temporary deviation from the remuneration policy, the Supervisory Board will (i) cancel and withdraw all temporary deviations from the remuneration policy prior to the first annual General Meeting following the effective date of the deviation; *or* (ii) propose the necessary amendments to the remuneration policy for adoption during the first annual General Meeting following the effective date of the deviation.

Deviations from the remuneration policy will be reported in Kendrion's remuneration report.

### **Remuneration components**

The remuneration policy for the members of the Executive Board consists of four components: a fixed base salary, a short-term variable remuneration, a long-term variable remuneration and other benefits such as a pension scheme and a car allowance or lease budget.

The sum of the fixed base salary, the short-term variable remuneration and the long-term variable remuneration for members of the Executive Board are considered appropriate in relation to: (i) the identity, the purpose and values of Kendrion, (ii) the pay-ratios within Kendrion, (iii) the international context in which Kendrion operates and (iv) views of relevant stakeholder groups.

The variable remuneration components are subject to a maximum value determined in advance in accordance with the remuneration policy.

The Supervisory Board will carry out scenario analyses to assess that the pay-out level of variable remuneration components appropriately reflect performance.

### **Fixed base salary**

Members of the Executive Board receive a fixed base salary, the amount of which is set at the median level relative to the abovementioned reference group<sup>1</sup>. The fixed base salary levels can be adjusted to be decided upon by the Supervisory Board, based on general market movement and inflation figures.

In addition to the above, any increase of the annual fixed base salary up to the median level relative to the abovementioned reference group, can be decided upon by the Supervisory Board and will not be regarded as an amendment to the remuneration policy.

### **Short-term variable remuneration**

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

<sup>1</sup> On 8 April 2019, the General Meeting reappointed J.A.J. van Beurden as CEO and member of the Executive Board for a four-year period commencing on 1 December 2019 and ending on 1 December 2023. The fixed annual gross base salary that becomes effective as of 1 December 2019 amounts to EUR 550,000, which amount is not subject to indexation during the second four-year term. The reappointment resolution does not also encompass a change to the Executive Board remuneration policy as adopted by the General Meeting.

<b>CEO</b>	The short-term variable remuneration ranges from 0% to 60% of the annual fixed gross base salary of the CEO, with 40% being the target amount <sup>2</sup>
<b>CFO</b>	The short-term variable remuneration ranges from 0% to 52.5% of the annual fixed gross base salary of the CFO, with 35% being the target amount

## Performance criteria

The performance criteria for the short-term variable remuneration are based on Kendrion's strategic intent to continuously grow revenue and profitability in a sustainable way, with a lean and focused organisation, and to provide a top quality work environment to its employees. In order to support Kendrion's strategic intent, the performance criteria for the short-term variable remuneration include financial and non-financial criteria.

The financially driven performance criteria determine 60% of the short-term variable remuneration and reflect the financial priorities of Kendrion. The remaining 40% of the short-term variable remuneration is determined by non-financially driven performance criteria and reflect sustainability ambitions and other priorities directly linked to Kendrion's strategic intent.

## Financial performance criteria

Each year the Supervisory Board selects at least three financial driven performance criteria from the list below with a view to incentivise delivery of financial priorities that support Kendrion's strategic and operational spearheads.

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

### Financial performance criteria<sup>3</sup>

Net profit

Return on sales (ROS)

Average return on capital employed (ROIC)

Organic growth

Free cash flow

Revenue

EBITA

EBITDA

The performance incentive zone (threshold, target and maximum) for each financial performance criterion will be determined in advance by the Supervisory Board by reference to the strategic and operational spearheads for the respective performance year. No pay-out will be made for below threshold performance.

<sup>2</sup> See also footnote 1. The short-term variable remuneration that becomes effective as of 1 December 2019 ranges from 0% to 90% of the annual fixed gross base salary of J.A.J. van Beurden, with 60% being the target amount.

<sup>3</sup> In each case excluding exceptional or one-off cost and revenue items and the amortization of intangibles arising on acquisitions or similar corporate events.

### Non-financial performance criteria

Each year the Supervisory Board selects a certain number of non-financial performance criteria derived from the strategic and operational spearheads for the respective performance year, which will in any event include performance criteria in the area of sustainability (i.e. environmental, social and/or governance criteria).

Achievement of each individual non-financial performance criterion will be measured by applying a binary scoring model. The amount of the pay-out for the achievement of non-financial performance criteria depends on the number of non-performance criteria achieved. A predefined step curve will be applied to calculate the pay-out between the achievement of the minimum threshold number of selected non-financial performance criteria and achievement of all selected non-financial performance criteria. No pay-out will be made for below threshold performance.

### Investment of part of the short-term remuneration earned

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

### Long-term variable remuneration

The long-term variable remuneration component incentivises members of the Executive Board to focus on long-term sustainable value for shareholders and other stakeholders and to align the interests of the members of the Executive Board with the long-term interests of shareholders and other stakeholder groups.

The members of the Executive Board annually receive conditional performance shares. The conditional performance shares will vest upon achievement of performance measured over a period of three years following the grant date, and are restricted by a holding period for another two years after vesting.

### Size of the award

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

The target value at grant date is as follows:

<b>CEO</b>	55% of the annual fixed gross base salary of the CEO as per the grant date <sup>4</sup>
<b>CFO</b>	50% of the annual fixed gross base salary of the CFO as per the grant date

The maximum opportunity for the long-term variable remuneration shall not exceed 150% of the target value.

<sup>4</sup> See also footnote 1. The long-term variable remuneration that becomes effective as of 1 December 2019 ranges from 0% to 90% of the annual fixed gross base salary of J.A.J. van Beurden, with 60% being the target amount.

In order to support Kendrion’s strategic intent, the vesting percentage of the performance shares is conditional upon the achievement of performance measured as:

Weight	Performance measure
40%	Relative total shareholder return (relative TSR)
40%	Basic earnings per share (EPS)
20%	Sustainability (i.e. environmental, social and/or governance)

**Relative TSR**

To determine achievement of this performance measure, the relative TSR is measured, which means share price movements, including dividends and assuming dividends are reinvested. The TSR performance of Kendrion is measured against the performance of twelve selected TSR peer companies included in Annex 1 (TSR Performance Peer Group).

The position of Kendrion in the TSR performance peer group, after three years, determines the score for this measure in accordance with the following performance incentive zone:

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

The position of Kendrion in the ranking defines the vesting for this part of the conditional grant of shares.

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

**Earnings per share**

EPS is disclosed in Kendrion’s consolidated financial statements and is calculated by dividing the profit or loss attributable to shareholders of Kendrion by the weighted average number of shares outstanding during the relevant period, excluding ordinary shares purchased by Kendrion and held as treasury shares. Earnings are adjusted for changes in accounting principles during the performance period.

The Supervisory Board sets the performance incentive zone (threshold, target and maximum) annually by reference to the mid-term plan as approved by the Supervisory Board in the year of the grant date. Given that these targets are considered commercially sensitive, EPS targets and the achieved performance are disclosed in the Annual Integrated Report after the relevant performance period.

The following performance incentive zone will be used to define the vesting for this part of the conditional grant of shares:

	< Threshold	Target	Maximum
<b>EPS</b>	0	100%	150%

The vesting is linear between threshold performance and on target performance and between on-target performance and maximum performance.

**Sustainability**

The Supervisory Board will annually set a sustainability target that is aligned with Kendrion’s sustainability ambitions as reflected in the Corporate Social Responsibility target framework.

The performance incentive zone (threshold, target and maximum) will be set by the Supervisory Board each year. The actual performance incentive zones will be disclosed after the expiry of the relevant three-year performance period.

The following performance incentive zone will be used to define the vesting for this part of the conditional grant of shares:

	< Threshold	Target	Maximum
<b>Sustainability</b>	0	100%	150%

The vesting is linear between threshold performance and on target performance and between on-target performance and maximum performance.

**Share ownership guideline**

An objective of the remuneration policy is increase alignment with the interests of shareholders by encouraging share ownership. Kendrion applies a share ownership guideline for members of the Executive Board of 100% of the annual fixed gross base salary for the CEO and 50% of the annual fixed gross base salary for the CFO. This shareholding has to be gradually built up with performance shares earned under the long-term incentive, although it is permitted to sell shares to finance taxes due at the date of vesting of the performance shares, and by purchasing shares with at least 20% of the net amount of the pay-out of the short-term incentive.

**Policy in case of change of control**

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

### **Adjustment and claw back**

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

### **Pension arrangement and other benefits**

Members of the Executive Board participate in the defined contribution pension scheme. Kendrion N.V. will pay: (i) the cost of contributions for participation in the defined contribution scheme; (ii) the risk premium for the surviving dependents' pension (*nabestaandenpensioen*) and (iii) the cost of contributions for participation in the occupational disability insurance (including *WIA exceedentverzekering*) (collectively the "**Pension and Disability Insurance Contribution**"). In addition, members of the Executive Board are entitled to an annual gross allowance to compensate for the loss of accrual of pension benefits as a result of the Dutch Wage Tax Act, provided that the sum of the Pension and Disability Insurance Contribution and such annual allowance shall annually not exceed an amount of EUR 75,000. This amount may be adjusted based on market developments.

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

Kendrion maintains a car lease policy for members of the Executive Board. The lease budget (including fuel) is EUR 2,000 per month. Alternatively, members of the Executive Board are entitled to a monthly gross car allowance of EUR 2,000.

In addition, Kendrion pays a monthly expense allowance to members of the Executive Board of up to EUR 450, to cover costs that are not suitable for individual reimbursement.

The amount of the car allowance and the expense allowance are not included as a basis for calculation of the Pension and Disability Insurance Contribution, or any other (variable) remuneration or allowance, severance amount or benefit.

Kendrion has arranged for a directors' and officers' liability insurance. The costs for this insurance are for the account of Kendrion.

### **Other key elements management agreement**

#### **Term and termination**

Management agreements with members of the Executive Board are entered for a definite period of four years. The management agreement may be terminated with due observance of a notice period of six months. Kendrion is entitled to terminate the management agreement with immediate effect for cause (i.e. seriously culpable or negligent behaviour on the part of the Executive Board member).

#### **Termination fee**

In the event of termination of the management agreement on Kendrion's initiative, the termination fee for members of the Executive Board shall not exceed 100% of the annual



fixed gross base salary (i.e. excluding short-term and long-term incentive and other elements such as pension contributions).

The members of the Executive Board are not entitled to a termination fee if the contract is terminated for cause (i.e. seriously culpable or negligent behaviour on the part of the Executive Board member) or if the contract is terminated at the initiative of the Executive Board member.

**PART B – SUPERVISORY BOARD REMUNERATION POLICY**

**Objectives**

The remuneration policy of the Supervisory Board serves to recruit and retain diverse, qualified and experienced members to supervise the manner in which the Executive Board implements Kendrion’s long-term value creation strategy. Considering the nature of the supervisory responsibilities of the Supervisory Board, the remuneration is not linked to Kendrion’s performance, and therefore includes a fixed component only. In line with good corporate governance, Supervisory Board members will not receive a share-based incentive.

The remuneration of the Supervisory Board shall be as described in the table below. The base fee and committee fee levels in the table below are the same as determined by the General Meeting in April 2017.

Base fee	
Chairman Supervisory Board	EUR 45,000
Member Supervisory Board	EUR 35,000
Committee fee	
Chair Audit Committee	EUR 6,000
Member Audit Committee	EUR 5,000
Chair HR Committee	EUR 6,000
Member HR Committee	EUR 5,000

**Expenses**

All reasonable and documented expenses incurred by the Supervisory Board members in the course of performing their duties are reimbursed.

**Benefits and loans**

Members of the Supervisory Board are not eligible to participate in any benefits scheme offered by Kendrion to its employees, nor shall Kendrion provide loans.

## ANNEX 1

### (TSR Performance Peer Group)

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

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