

# Risk management

## Effective risk management

Effective risk management is key to executing Kendrion's strategy, achieving long-term value for Kendrion's stakeholders, protecting the company's reputation and good corporate governance. Kendrion promotes entrepreneurship and empowers management to exercise their discretionary powers as appropriate. Kendrion's risk management is not intended to eliminate all risks since exposure to risk is unavoidable in doing business. Kendrion actively conveys the need to maintain a healthy balance between entrepreneurial spirit and risk awareness. We adopt an approach to business risks that is consistent with our risk appetite and that minimizes the probability of adverse events and the impact of such events, while remaining competitive in an ever-developing business environment. The Executive Board emphasizes that risk management and control systems can neither offer an absolute guarantee that the company's objectives will be achieved nor entirely prevent material errors, loss, fraud, or violations of laws or regulations.

## Risk management framework

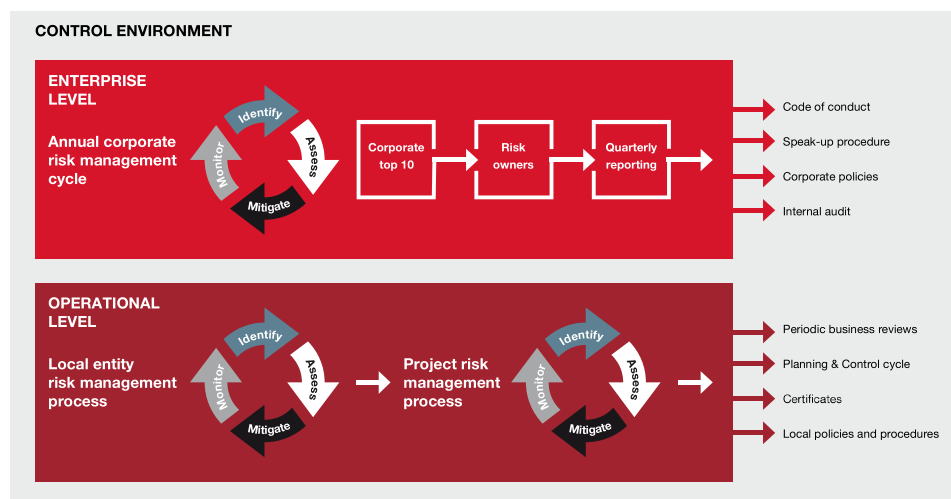
Risk management is integrated in Kendrion's business practices and extends to all areas such as culture, policymaking, processes, duties, influencing conduct and all other aspects of doing business. Kendrion's approach to risk management is part of its control environment and consists of two main complementary elements: a top-down strategic view of risk at the enterprise level and a bottom-up view of risk at the operational level. The approach to risk management interacts with all relevant elements in the control environment, both on the enterprise as well as on the operational level. With this consistent approach, Kendrion's risk management and control framework fosters a culture of risk awareness

across the organization by identifying risks in a systematized manner and defining appropriate controls aimed at the mitigation and management of these risks in line with Kendrion's risk appetite.

The Executive Board is responsible for maintaining a comprehensive risk management and internal control system aligned with the risks associated with Kendrion's strategy and activities, and for regularly reviewing and supervising its effectiveness. In addition to maintaining a risk management

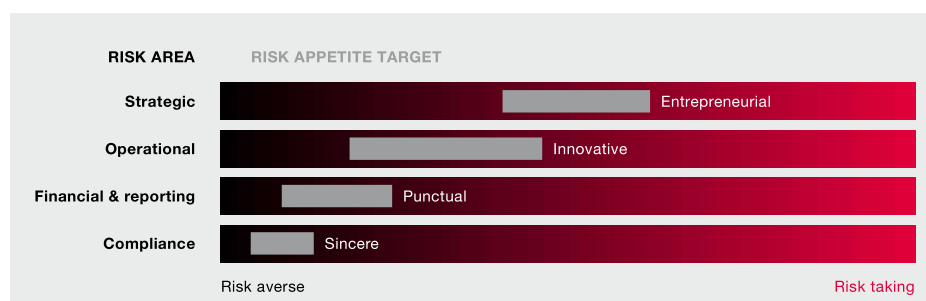
and internal control system, the Executive Board is responsible for ensuring that such system is embedded in Kendrion's business practices.

Kendrion's risk management function, headed by the Internal Audit and Risk Manager, provides guidance and support to the Executive Board. This includes driving risk awareness across the Kendrion organization and leading reviews of operational processes and effectiveness of the risk management and control system.



The Executive Board conducts an annual risk assessment and considers if adjustments to the risk management and internal control system are required, as conditions and market circumstances change. The risk assessment includes a section specifically focused on fraud risks that are relevant for Kendrion. The result of the annual risk assessment is discussed within Kendrion's Management Team and shared and discussed with the Supervisory Board. To strengthen risk management and oversight, risk owners are assigned to the top-10 risks identified, and each risk owner is responsible for preparing and updating mitigation plans. On a quarterly basis, risk owners report to the Executive Board on mitigation progress and risk development. This report is also shared and discussed with the Audit Committee.

At the operational level, Kendrion's plants hold internationally recognized certifications designed to assess and improve their processes. They have a responsibility to put internal controls and procedures in place and to verify their effectiveness by testing them at regular intervals. Local management is expected to be fully aware of the operational risks and the necessity of internal controls and procedures.



**Risk appetite**

Kendrion's risk management framework balances risk and opportunity and unambiguously describes the Executive Board's appetite for risk. The Executive Board and the Management Team periodically review and discuss Kendrion's approach to risk management, as Kendrion's risk appetite may change over time reflecting developments in society, geopolitics, the competitive and customer landscape as well as changes within Kendrion.

Kendrion's risk appetite provides an indicative bandwidth that guides the organization during its decision-making process. This bandwidth is defined for each of the following risk areas; Strategic, Operational, Financial & Financial reporting and (Tax) Compliance. The width of the bandwidth and the position on the risk spectrum (from risk averse to risk taking) differs for each of the risk areas. The above visual shows that Kendrion is risk averse when it comes to compliance risk exposure, whereas the bandwidth for strategic risks is much broader and allows for a higher degree of risk-taking in pursuit of the strategic objectives.

**Risk overview**

Risk area	Risk name	Risk description
<b>Strategic</b>	Market disruption/decline and uncertainties related to the global political and economic conditions	Continued long-term recession in the automotive and/or industrial markets. Additionally, Inability to respond with agility to volatile economic and political conditions may lead to difficulties to manage business operations.
	Unsuccessful long-term strategy or unsuccessful implementation of long-term strategy	The strategy does not deliver the expected results (e.g. growth, profit, market share) or focus on the right products and product portfolio – also based on megatrends – to serve clients in the future, leading to a decline in market share and financial performance.
	Unable to attract and retain qualified personnel	Inability to attract and retain qualified people by being unresponsive to relevant employee satisfaction drivers (e.g. modern, diverse and inclusive working environment, competitive compensation) may lead to increased stress on existing personnel, absence or loss of key knowledge, or capacity issues.
<b>Operational</b>	Sourcing issues and/or purchase price increases	Risk of instability in the supply chain (affecting sourcing of raw materials, services, energy) and/or significant increase of purchase prices could lead to business interruptions and additional costs.
	IT and Cyber Security risks	Cyber risks e.g. failures of information systems and the alteration, destruction or copying of data through unauthorized system and data access, may lead to business interruptions, loss of confidential data or reputation damage.
	Significant order volume fluctuation/decline or project cancelation	Increase in the volatility of customer orders, with larger deviations in quantities and cancellations of projects altogether.
<b>Financial &amp; reporting</b>	Cost increases or efficiency losses are not transferred to the customer	Cost increases for raw materials, energy or wages or efficiency losses caused by volatile order volumes are not passed on to the customer.
	Customer-related risk	Customer actions (pressure on price) or issues (insolvency) impacting profit margins, asset values (impairment) and/or cash flow.
	Cash flow / liquidity risk	Insufficient cash generated through operating activities to finance business activities and pursue strategic opportunities.
<b>Compliance</b>	Employee health and safety	Inability to manage a healthy working environment (e.g. hygiene protocols) and employee safety may lead to incidents, loss of productivity, demotivation or absence.
	Tax compliance	Non compliance with applicable tax regulations can lead to increase of tax expenses, penalties, litigation and harm the reputation with authorities and other stakeholders.

In addition to the selected key risks described in the table above, Kendrion distinctively recognizes risks related to climate change, tax compliance, and fraud. Each of the risk areas and the associated key risks will be addressed in more detail.

**Strategic risks**

**Market disruption/decline and uncertain political and economic conditions**

Kendrion operates in a competitive market that is exposed to economic changes, geopolitical developments, societal changes as well as industry disruption, including the accelerating transformation from a predominantly hardware-

based automobile to a software-centric electronic device on wheels. Market disruption, saturation (e.g., possible Peak Car in EU and USA) or decline, could pressure Kendrion's financial results and the company's ability to achieve its strategic goals. Volatile economic and political conditions may lead to difficulties in managing business operations (e.g. planning and forecasting) and declined business performance. Kendrion will continue its development efforts to address markets that offer sustainable

above average growth, by offering a tailored product portfolio focused on megatrends such as industrial and automotive electrification and automation.

This is supported by maintaining a lean and flexible organization that can swiftly adjust to the economic tides and market trends. This flexibility not only relates to working with temporary staff and focusing on the reduction of variable operating expenses, but also includes the ability to communicate up-to-date financial information efficiently to decision-makers throughout the organization, make justifiable insourcing and outsourcing decisions, adjust supplier contracts, implement performance-dependent employee benefits, work with flexible hour contracts and use opportunities to reduce working hours in specific countries. The composition of the group with about 50% automotive activities and 50% industrial activities reduces Kendrion's exposure to a market disruption or decline in one of these markets.

#### **Unsuccessful strategy or unsuccessful implementation of long-term strategy**

In the current volatile environment, there is always the risk that a company's long-term strategy will not deliver the expected results, such as growth, profit, or an increase in market share (within the expected timeframe). This risk can also arise if the long-term strategy is not successfully implemented, for example if the company does not focus on the right products or product portfolio or does not adequately consider megatrends or its clients' needs. If the long-term strategy is not successful or not implemented effectively, it can lead to a decline in market share and financial performance for the company. Kendrion is aware of the importance to plan and execute strategic changes carefully, and to be prepared to adapt to changing circumstances. There is an in-depth annual strategic review process, involving senior management of the company, to assess Kendrion's performance compared to its multi-year strategy. This includes quarterly meetings to review progress of individual business groups on operational targets and strategic projects.

In these meetings, any relevant changes in the environment are considered and monitored to ensure timely adjustments of strategic projects or to consider alternative solutions.

#### **Unable to attract and retain qualified personnel**

The market for talent is increasingly competitive, especially pertaining to the key skills, expertise, and capabilities we need. Inability to attract and retain qualified employees may lead to high dependency on existing personnel and loss of knowledge. Kendrion's required know-how is highly specific and often requires on-the-job training. A lack of skilled employees could impede the achievement of Kendrion's strategic objectives.

Kendrion strives to be recognized as a safe, inspiring, and high-quality place to work. Besides offering competitive benefit packages and securing good and safe labor conditions in all locations, Kendrion offers flexible work styles that contribute to the performance and job satisfaction of employees. By investing in succession planning (e.g. through a training program for high potentials), various in-house training programs and apprentice programs, Kendrion intends to encourage ambition and give employees the possibility to work on exciting tasks and innovative projects. Kendrion conducts company wide employee satisfaction and culture surveys at regular intervals enabling people to give and receive feedback. So that Kendrion can attract early career professionals it maintains good relations with technical universities and institutions of higher technical education. In addition, Kendrion makes sure that offices are located at attractive and inspiring locations.

## **Operational risks**

#### **Sourcing issues and/or purchase price increases**

Kendrion is dependent on a continuous supply of (raw) materials for its plants to operate and to be able to meet customer demands and expectations. The supply chain of (raw) materials can be disrupted in many ways, from issues during transport, to a bankrupt supplier, or scarcity of certain materials. Suppliers can also be faced with increased demand for their products or increasing raw material prices, resulting in increases in purchase prices for Kendrion's raw materials.

Kendrion actively endeavors to increase the number of alternative sources for its most important (raw) materials, while always making sure that (raw) materials are purchased from reputable suppliers. Quantities are generally secured via advance capacity confirmations and regular financial quick checks are performed to assess the solvency of suppliers. Suppliers that are critical to Kendrion's supply chain have been identified and are actively monitored to secure continuity of the supply chain. Kendrion predominantly uses local supply chains for local production and revenue, and when certain materials have a single supplier, contingency measures are discussed (e.g. insourcing when possible, active periodic monitoring of critical suppliers) to ensure the exposure is within Kendrion's risk appetite and swift action is possible when required. In case disruptions in the supply chain do occur, the customers affected by this disruption will be informed immediately and solutions will be discussed.

#### **Significant order volume fluctuation/decline or project cancelation**

External events such as a pandemic, an economic downturn, supply chain disruptions or changes in regulations or preferences, including the sustainability transformation, can cause certain customers to experience a structural decline

in the demand for their products. This could cause a similar decline in their order volumes or even the cancellation of projects altogether.

Also, persisting shortages in the supply of raw materials to our customers may increase the risk for customer orders to be adjusted due to lack of certain components, resulting in ad-hoc and unpredictable adjustments to order levels. In turn, this could result in significant and short-term fluctuations in demand, requiring short-term plant capacity adjustments, and consequently, additional costs for underused plant capacity or an increase in production backlog due to insufficient production capacity. Order volatility could also result in increased inventory levels either because orders are cancelled, or to ensure that increased demand can be fulfilled.

Kendrion focuses on strengthening relationships with customers and engages constructively with them to actively monitor developments and changes to order volumes and timing where possible. Kendrion undertakes to negotiate contractual terms that ensure that sales prices per product increase when volumes are reduced, and that investments (e.g., development, tools, and equipment) are reimbursed if contracts are cancelled or predicted volumes are not achieved. However, this will not be sufficient to offset all the expenses incurred or compensate for revenue loss. Demand levels are closely monitored to timely detect overcapacity and production capacity and purchase volumes are adjusted accordingly to mitigate the impact on profit and working capital. Kendrion continuously adapts its production and supply chain planning to movements in day-to-day orders, and the roll-out of predictive planning tools have enabled an increased flexibility in production while maintaining a high level of efficiency.

#### IT and Cyber Security risks

Cyber risks e.g. failures of information systems and the alteration, destruction or copying of data through unauthorized system and data access, may lead to business interruptions, loss of confidential data or reputation damage.

On 29 August 2023 Kendrion reported the identification of a cyber security incident involving unauthorized third-party access to certain of the company's IT systems. In response, Kendrion immediately shut down all affected IT systems to contain the incident and activated its response protocol, including contingency plans to continue operations without these systems. On 5 September 2023, Kendrion announced it had restored all key IT systems, having incurred minimal disruption for customers and employees and no material impact on the company's financial results.

During 2023 Kendrion has further intensified its focus on cybersecurity risks, acknowledging the significant impact on operational integrity and stakeholder confidence. Kendrion has integrated renowned security monitoring tools that provide advanced 24/7 threat detection, network monitoring, and real-time alerts, enabling us to identify and respond to potential threats swiftly. In addition, Kendrion places strong emphasis on contingency planning involving strategies to ensure business continuity and data integrity in the event of a cyber incident. Contingency plans include redundant data storage, backup systems, and disaster recovery protocols to quickly restore operations with minimal disruption. Combined with regular software updates, employee training, and continuous vulnerability assessments, our multi-layered approach to cybersecurity fortifies our defense against cyber-attacks. This proactive stance, encompassing state-of-the-art technologies, best practices, and robust contingency planning, safeguards our digital infrastructure and sensitive data, reinforcing our standing as a secure, resilient, and responsible organization.

#### Financial & reporting risks

As a globally operating, publicly listed company, Kendrion must comply with financial reporting requirements.

Material misstatements in reporting could affect Kendrion's reputation and/or stock market value. Kendrion reports to the market on a quarterly basis, and reports financial figures based on IFRS standards.

With the risk appetite for this risk area being on the adverse side of the spectrum, Kendrion has several controls in place that help to contain risk exposure within acceptable boundaries.

It is critical that all operating entities report to the same standards and deliver the same quality of reporting, in line with applicable accounting and reporting principles. There are local planning and control cycles that provide financial and non-financial information to the group based on standardized reporting formats on a weekly, monthly, or annual basis, based on a group reporting manual. To protect the integrity and accuracy of reported information without having to rely on manual controls, it is important that effective general IT controls are in place, such as proper segregation of duties, access control for important systems, and source data protection through proportionate change control procedures for all accounting and reporting systems and their key infrastructure. Where Kendrion would mitigate sub-optimal general IT controls in previous years by performing additional manual controls, in recent years these manual controls have gradually shifted to automated IT controls through continuous improvement actions, also based on recommendations by the external auditor over the past years. Kendrion will continue to improve its general IT controls, with a focus on increased control automation, while balancing available resources against improvement benefits.

On a quarterly basis, all responsible officers provide a letter of representation confirming the correct and complete reporting of financial and non-financial information and the absence of material violations of applicable laws, rules, and regulations, along with internal policies such as the Kendrion Code of Conduct. This also includes continuous monitoring of upcoming changes in accounting and/or reporting standards, laws and regulations, and periodic discussions with responsible finance leaders and senior management within the business units.

Apart from the key financial & reporting risk mentioned above, Kendrion also recognizes financial & reporting risks related to debt financing, credit exposure and interest and exchange rate fluctuations (refer to pages 139-142 and following of the financial statements for an outline of Kendrion's financial market risks and the policy for mitigating those risks or their impact). Kendrion has proportionate mitigating measures in place for these risks, which are monitored on different levels within the company.

#### **Cost increases or efficiency losses are not transferred to the customer**

Kendrion's gross margin can be negatively impacted by increased prices of raw materials, energy and labor, or efficiency losses through low and volatile order volumes, if these effects cannot be transferred to customers in a timely manner.

Kendrion aims to minimize the financial impact of price fluctuations for those materials that are most relevant. The most important (raw) materials for Kendrion are machined steel parts, raw steel, copper and permanent magnets. Where feasible, Kendrion includes raw material price clauses in its long-term customer contracts that provide for a sales price adjustment when the actual average raw material price over a certain timeframe deviates from a predetermined base price.

Short-term agreements generally provide for price surcharges, allowing the sales price to be adjusted based on the prevailing market prices for logistics, raw materials, or energy. When customers reduce their orders below previously agreed levels, additional costs are charged to these customers to offset inefficiencies.

#### **Customer-related risk**

Key and other customers that represent a significant part of Kendrion's revenue may demand more favorable terms for their business. This may manifest itself in the form of renegotiations on price or other adverse changes to contractual conditions, such as extended payment terms. This may impact margins and/or cash flow. If customers become insolvent, this could involve writing off outstanding invoices and stock and equipment becoming obsolete, resulting in losses.

Kendrion aims to maintain and protect its contractual position and reject unreasonable changes to existing terms, while valuing and preserving business relations. By consistently delivering qualitative products according to customer expectations against a competitive proposition, Kendrion aims to satisfy its customers while also remaining profitable. Through conducting credit reviews of significant customers, enforcing customer credit limits, and prepayment requirements for new customers, Kendrion aims to limit the exposure to customer insolvency to an acceptable level.

#### **Cash flow and liquidity risks**

Insufficient cash generated through operating activities can affect the company's financial stability and ability to invest in strategic growth opportunities. Kendrion closely monitors and manages cash flow and liquidity risks, including effective working capital and expenditure management. Kendrion has implemented stringent cash flow management measures, prioritizing essential expenditures and optimizing working capital to enhance our financial position. Optimized working

capital include maintaining a minimum amount of inventory required to secure efficient operations and delivery commitments, strict debt collection policies and procedures and placing emphasis on negotiating fair payment terms. Kendrion is judicious in its capital expenditure decisions, carefully evaluating each opportunity for its potential to contribute to strategic growth and long-term value creation. Our approach includes rigorous financial forecasting and scenario planning enabling us to continue strategic investment opportunities while maintaining a healthy balance sheet. Kendrion is committed to maintaining a healthy financial position, reducing its debt levels and laying a solid foundation for sustainable growth and profitability.

#### **Compliance risks**

Kendrion commits to conducting business in accordance with its Code of Conduct and the values underlying the Code of Conduct, applicable laws, and regulations, including employment laws, data protection laws and regulations, accounting standards, tax laws, health and safety regulations, as well as governance and statutory filing requirements, applicable in the countries in which it operates. Senior management is responsible for raising awareness of, and applying, applicable laws and regulations.

Global and local policies are developed and maintained to support compliance. Kendrion's global policies include a range of procedures and policies that must be applied when conducting business, including a Code of Conduct, Insider Trading Code, Speak-up procedure, etc. Kendrion's Code of Conduct builds on the values of The Kendrion Way, an inspiring motto at the heart of the Kendrion organization.

The Code of Conduct provides a set of principles and expectations that guide the behavior of everyone within Kendrion. Guidance and training are provided to Kendrion employees to help them recognize compliance dilemmas and raise actual or suspected misconduct or irregularities following Kendrion's Speak-up procedure.

For more information about The Kendrion Way reference is made to the section People & culture included in this Annual Integrated Report.

Compliance with Kendrion's internal policies and procedures, as well as local laws and regulations is also reviewed by Kendrion's internal audit function. The Global Internal Audit and Risk Manager is responsible for the design and execution of the annual audit plan to assess the adequacy of Kendrion's internal control systems. The Global Internal Audit and Risk Manager reports to the Executive Board with direct and independent access to the Audit Committee and external auditor. Audit results are reported to the Executive Board and the essence of the results are reported to, and discussed with, the Audit Committee and external auditors on a regular basis. The results of the audits conducted in 2023 were discussed with local management and any control deficiencies have been addressed.

#### Employee health and safety

For Kendrion, the health and safety of its employees is paramount. Inability to manage a healthy working environment (e.g. hygiene protocols) and ensure employee safety may lead to incidents such as the spread of illness or injury. If employees do not feel welcome and safe in the workplace, it can lead to demotivation, lower morale, or absence, resulting in loss of or decrease in productivity and an increase in employee turnover.

Kendrion promotes health and safety standards for all its employees through all available communication channels

(e.g. billboards, intranet, newsletters, etc.). Personal health is encouraged via several local initiatives (e.g. sports, fruit baskets, health days) and cooperation with clinics provide support with mental health issues. Managers are trained to identify health issues, and first responders' training is available to employees interested in learning how to perform first aid. Employee absence is monitored on a monthly basis as an indicator of employee health development. By doing so on a monthly basis, Kendrion is able to adapt to changing circumstances and implement additional measures when appropriate.

#### Tax compliance risks

In line with the overall risk averse appetite for compliance risks, Kendrion also specifically reiterates this risk averse appetite for tax compliance and associated risks. Tax risks originate from local tax rules and regulations as well as from international regulatory frameworks. Tax risks include transfer pricing risks on intercompany cross-border deliveries of goods and services, tax risks related to acquisitions and divestments, tax losses, taxes carried forward, permanent establishments and potential changes in tax law. This may result in financial impacts in the form of increased tax expenses and payments, tax adjustments, accrued interest, fines, litigation against Kendrion's management, and damaging Kendrion's reputation with the (local) authorities and its stakeholders.

The Group Finance & Control department is in charge of establishing and overseeing group wide tax policies. Potential risks are periodically monitored and assessed based on the likelihood of occurrence and its potential impact on local and groupwide financial tax results. For the most important tax jurisdictions periodic meetings are held with external tax specialists to assess the tax position, tax risks and to the extend applicable, any impact of potential changes in tax laws

and legislation. Kendrion actively seeks to reduce tax risks by involving external tax advisors when specialist knowledge is required and (local) authorities when interpretations of tax requirements can have an evident impact.

#### Climate change

Society, shareholders, and other stakeholders are increasingly aware of environmental challenges and the impact of climate change. They demand sustainable operations, solutions, and products. The socioeconomic impact of climate change and the adoption of new regulations and the enforcement of initiatives to reduce global warming and other impacts of climate change, provide Kendrion with challenges and opportunities related to its existing and future product portfolio. In addition, a higher frequency of extreme weather conditions increases the likelihood of natural disasters, which may, from time to time, disrupt supply chains, production, delivery times and the availability of raw materials. Significant material price increases caused by persistent material shortages and implementation of government actions to mitigate climate change, such as carbon tax, will negatively affect future operating costs.

The product portfolio of Kendrion's Industrial Business Groups is expected to benefit from the global trend towards electrification of industrial processes that decrease the use of fossil fuels and greenhouse gas emissions. The automotive industry is transforming based on four reinforcing trends towards Autonomous, Connected, Electric and Shared (or ACES) mobility, leading to cleaner, safer and more comfortable forms of transportation.

To advance these trends, the automotive industry requires new actuator technologies that will replace existing technologies developed for internal combustion engines of passenger cars

and commercial vehicles. Kendrion has been transitioning and will continue to transition its product portfolio towards these new technologies. To the extent the existing Automotive product portfolio relates to combustion engine vehicles, it is expected that the revenue derived from these technologies will gradually decrease over the next 10 to 15 years in line with the phase out of the combustion engine as mandated by various legislative initiatives around the globe.

On balance we expect our Automotive revenue to benefit from this transformation.

Kendrion is committed to reducing its contribution to climate change by reducing the carbon footprint of its operations through using renewable energy, decreasing energy consumption, decreasing waste from production and increasing recycling rates of materials. Kendrion is equally committed to continuing to invest in a responsible product portfolio by developing products that help advance our industrial and automotive customers' ambitions and objectives to reduce emissions and climate impact.

## Fraud

With its global footprint, Kendrion is exposed to a wide range of fraudulent activities. Given Kendrion's activities as an industrial production company, the most important fraud risks are identified in the supply chain (kickbacks, shop in shop, bribery, false invoices), inventory and asset management (theft, manipulation), administrative processes (fraudulent payments, falsified records) and cyberattacks. Fraud in this context can result in a wide range of losses, ranging from negligible financial loss through petty theft of (office) materials to significant financial losses, damage to the organization's reputation, and a loss of customer trust when legal penalties in strict anti-fraud regimes are involved. Fraud risks are explicitly included in the annual corporate risk assessment as a separate category,

to ensure active monitoring of fraud risk development, and continuously create awareness for fraud risks amongst (senior) management.

Kendrion has measures in place to significantly reduce its exposure to fraud. An important cornerstone of these measures is the restriction of access (both physical and digital) to only those areas that individuals require to perform their day-to-day activities, and segregation of duties (SoD) so that important checks and balances are not combined within the same person. Both the user access and SoD are reviewed on an annual basis and adjusted to be in line with the risk appetite if situations change. A significant number of general IT controls around user access and SoD have been implemented. However, to date, a few deficiencies in the design and effectiveness of the controls do exist. To the extent deficiencies in the IT controls do exist, Kendrion has additional controls in place that also detect and prevent fraud, such as but not limited to variance and margin analysis and comprehensive reviews on key master data changes. At the same time, Kendrion continues to address and improve the design and effectiveness of the IT controls.

On top of the foundation of access management and SoD, Kendrion also implemented an authorization matrix to clearly define the responsibilities and authorization limits for each function within the company. This ensures that the right employees are involved when information is processed or decisions are made with a certain level of (fraud) risk. Every employee within the company is informed about Kendrion's Code of Conduct (CoC) when they join Kendrion, and the CoC specifically addresses the most common forms of fraud and the expected employee behavior concerning these topics. On an annual basis the CoC (or specific topics thereof) are refreshed for all employees through different forms of communication (e.g. posters, video's, e-learning, workshops, etc.).

## In control statement

Based on the approach described above, the Executive Board is of the opinion that, to the best of its knowledge:

- the Report of the Executive Board provides sufficient insights into any failings in the effectiveness of the risk management and internal control systems;
- the risk management and internal control systems provide reasonable assurance that the financial reporting, including tax, does not contain any material inaccuracies;
- based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and the Report of the Executive Board states those material risks and uncertainties that are relevant to the expectation of Kendrion's continuity for the period of twelve months after the date of the Report of the Executive Board.

Properly designed and implemented risk management and internal control systems significantly reduce, but cannot fully eliminate, the possibility of human errors, poor judgement, deliberate circumvention of controls, fraud or infringements of laws, rules or regulations, or the occurrence of unforeseeable circumstances. Another factor considered within risk management is that efforts related to risk management and internal control systems should be balanced against the costs of implementation and maintenance.