

# ANNUAL REPORT



# 2016



# TKH TECHNOLOGIES GUARANTEE EFFICIENCY AND SAFETY

TKH has defined seven vertical growth markets in which an above average growth is expected because of important trends, which lead to a high priority for investment in TKH's core technologies. Thanks to our continuous links with our customers, we are well informed about the latest developments on the market. As a result, we are aware of changes in the market, the needs of our customers, and the demands imposed in providing the perfect solution. Nonetheless, we still go one step further. Based on our technologies and innovative total solutions, we not only guarantee that our customers are successful, but also that they generate a return on their investments.

# TKH GROUP ANNUAL REPORT 2016





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The paragraphs marked with a \* belong to the Report of the Executive Board as defined in Title 9, Dutch Civil Code 2.

# FOREWORD

**The strategic focus within TKH in combination with our R&D efforts has resulted in a further strengthening of the foundations of TKH in 2016. This development has brought the targets set within our vertical growth markets even closer, although this is not directly reflected in the turnover achieved in 2016. Turnover developments and results in the fourth quarter were particularly good, with new quarterly records being set in turnover, results and ROS.**

We are positive about the excellent cooperation that we have enjoyed with our customers. This has made it possible to achieve big steps in our market position. Technological developments at TKH strongly contribute to make our customers more efficient and safer and respond to priorities that are important for our customers.

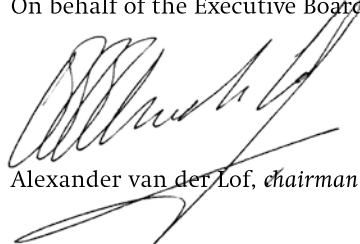
Distinctiveness with our innovations is the driver for TKH to grow and to secure continuity. The value creation of TKH gives a good perspective and it is good to see that shareholders increasingly appreciate our strategy. We will continue on the same path and with the planned increase in R&D expenditures in the coming years, to further expand our leading technology proposition.

In the section of this annual report we explain the relevance of our technology and our solutions for improving the efficiency, safety and security of the processes of our customers. The focus on our four core technologies, our distinguishing capacity and the opportunities available to us within the vertical growth markets will all be discussed in detail.

We underline once again the importance of corporate social responsibility (CSR). This aspect of our business will also be discussed in detail in the CSR chapter of this annual report. We believe that our focus on CSR will serve as another distinguishing feature of our organization, and as such will be a key contributing factor in our business continuity and positioning. Finally, also in the field of technology, CSR offers interesting challenges in the form of innovation, and we are pleased to see that our stakeholders are attaching ever greater value to the solid embedding of CSR in the business culture.

We are grateful to our employees, customers, business partners, the Supervisory Board, shareholders and holders of depositary receipts of shares for the trust they have placed in TKH, and the support they offer us in further developing the company and achieving our ambitions.

On behalf of the Executive Board,

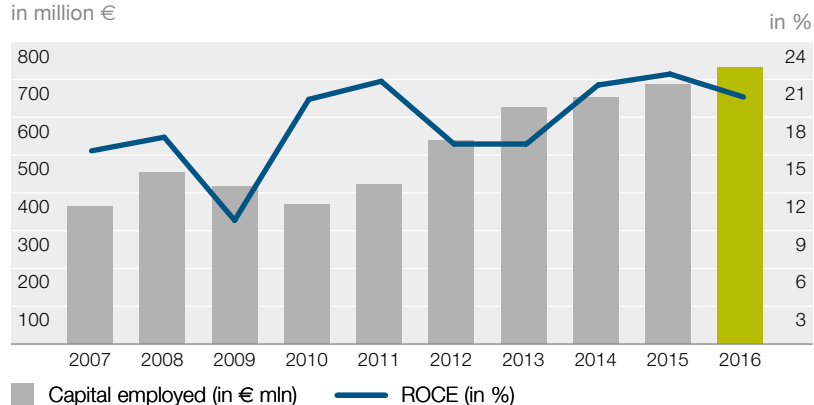


Alexander van der Lof, *chairman*



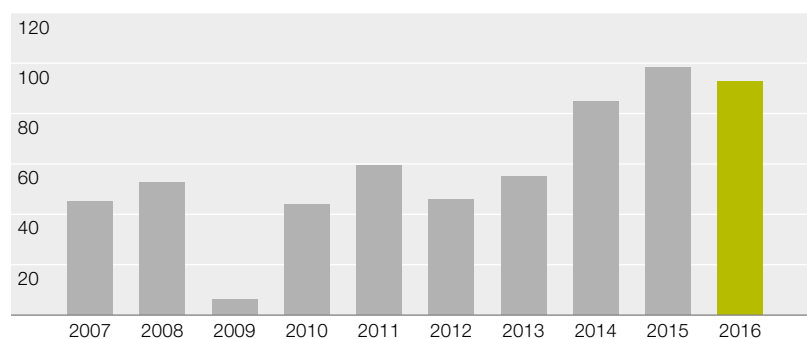
## CAPITAL EMPLOYED AND ROCE

in million €



## NET PROFIT\*

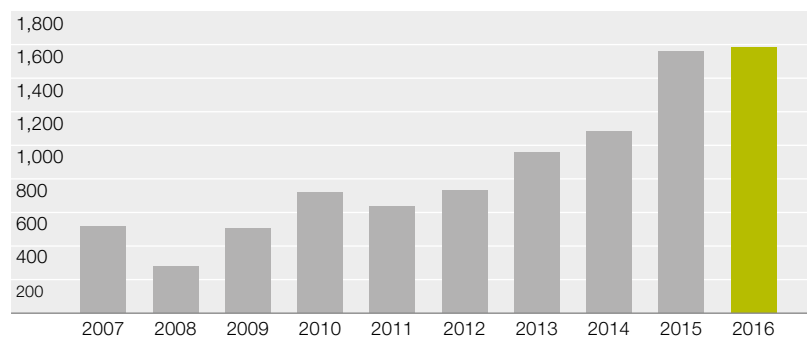
in million €



\* Before amortization and one-off income and expenses attributable to shareholders.

## MARKET CAPITALIZATION

in million €



## KEY FIGURES

	2016	2015
<b>Operations</b> (In € million)		
Turnover	1,341	1,375
EBITA	147	152
Net result	87	88
Net profit before amortization and one-off income and expenses attributable to shareholders <sup>1</sup>	94	100
Cash flow from operating activities	103	182
Net investments <sup>2</sup>	46	38
Depreciation of tangible non-current assets	23	23
<b>Balance sheet</b> (In € million)		
Shareholders' equity <sup>3</sup>	583	529
Liabilities	664	721
Non-current assets	656	630
Current assets	590	620
<b>Ratios</b> (In %)		
Shareholders' equity/total assets	46.7	42.3
Shareholders' equity/non-current assets	88.8	84.0
EBITA as % of the total turnover (ROS)	10.9	11.0
EBITA in % of the average capital invested (ROCE)	20.1	22.1
Net debt/EBITDA ratio	1.0	0.9
Net result as % of the total turnover	7.2	7.4
Return as % of the shareholders' equity <sup>3</sup>	16.5	19.3
<b>Employees</b> (In FTE)		
Number at year-end	5,509	5,387
In euro's (unless otherwise stated)		
<b>Per ordinary share of € 0,25</b>		
Shareholders' equity <sup>4</sup>	13.82	12.70
Net result <sup>5</sup>	2.04	2.07
Net profit before amortization and one-off income and expenses attributable to shareholders <sup>1 5</sup>	2.25	2.40
Cash flow from operating activities <sup>4</sup>	2.45	4.35
Dividend	1.10	1.10
Highest share price during year under review	38.14	40.50
Lowest share price during year under review	28.47	25.35
Share price at year-end	37.59	37.44
Ordinary shares outstanding at year-end ( x 1,000 )	42,161	41,724

<sup>1</sup> Amortization of intangible non-current assets related to acquisitions (after tax).

<sup>2</sup> In tangible non-current assets.

<sup>3</sup> Including non-controlling interests.

<sup>4</sup> Based on outstanding ordinary shares held by third parties at 31 December.

<sup>5</sup> Based on weighted average number of outstanding shares at third parties.

# HIGHLIGHTS 2016

## Turnover

Decline in turnover of 2.5% to € 1,341.0 million, organic turnover decline of 0.8%.

**1,341** million euros

## EBITA

Decline in EBITA of 3.3% due to lower production volumes at Industrial Solutions in the first nine months.

**146.5** million euros

## EBITA Q4

Increase in EBITA in Q4 of 15.9%, mainly driven by rise in EBITA Industrial Solutions due to increase in production volume.

**+15.9%**

## Industrial Solutions

Visible recovery in order intake in tire building segment (Industrial Solutions) in Q4.

**89.0** million euros

## R&D spending

Increase investments and R&D spending to strengthen technology base and further expand TKH's leading position.

**50.3** million euros

## Net profit

Decline in net profit before amortization and one-off income and expenses attributable to shareholders of 5.6% to € 94.4 million; slightly above the previously communicated bandwidth (€ 88 - € 93 million).

**94.4** million euros

## ROS / ROCE

Robust ROS of 10.9% and ROCE of 20.1%.

ROS **10.9%**      ROCE **20.1%**

## Innovations

The share of innovations in turnover was 19.0%, well above the target of 15%.

**19.0%**

## Dividend

Dividend proposal: € 1.10 per (depository receipt for an) ordinary share, equal to the dividend for 2015.

**1.10** euro

## 6 About TKH

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# PROFILE

Technology firm TKH Group NV (TKH) is an internationally operating group of companies that specializes in developing and delivering innovative Telecom, Building and Industrial Solutions based on four core technologies.

The four TKH core technologies -*vision & security, communication, connectivity and manufacturing systems*- are linked into total systems and solutions in our three Solutions segments. In this, we strive for far-reaching synergy and co-operation between our subsidiaries.

TKH has a thorough knowledge of processes and technologies, as well as insight into its customers' markets and processes. We offer our customers tailor-made solutions by making optimal use of our specialists' know-how in the fields of R&D, engineering, marketing, process development, project management and logistics.

TKH strives for strong market positions based chiefly on its own innovative core technologies and services. TKH and its subsidiaries operate on a global scale. Its growth is concentrated in Europe, North America and Asia. Employing 5,509 people, TKH achieved a turnover of € 1.3 billion in 2016.

# MISSION

TKH aims to be an innovative leading technology (niche)player that, by means of combinations of its four core technologies, offers total solutions which lead to greater efficiency, more comfort and improved safety for its customers. By offering best-in-class solutions, TKH wants to constantly exceed customer expectations.

TKH wants to be an attractive employer and to be a solid investment for shareholders, where a socially responsible way of doing business is placed centrally.

TURNOVER

**1.3**  
billion euros

EBITA

**146.5**  
million euros

NET PROFIT PER SHARE

**2.04**  
euro

NUMBER OF EMPLOYEES

**5,509**  
FTE

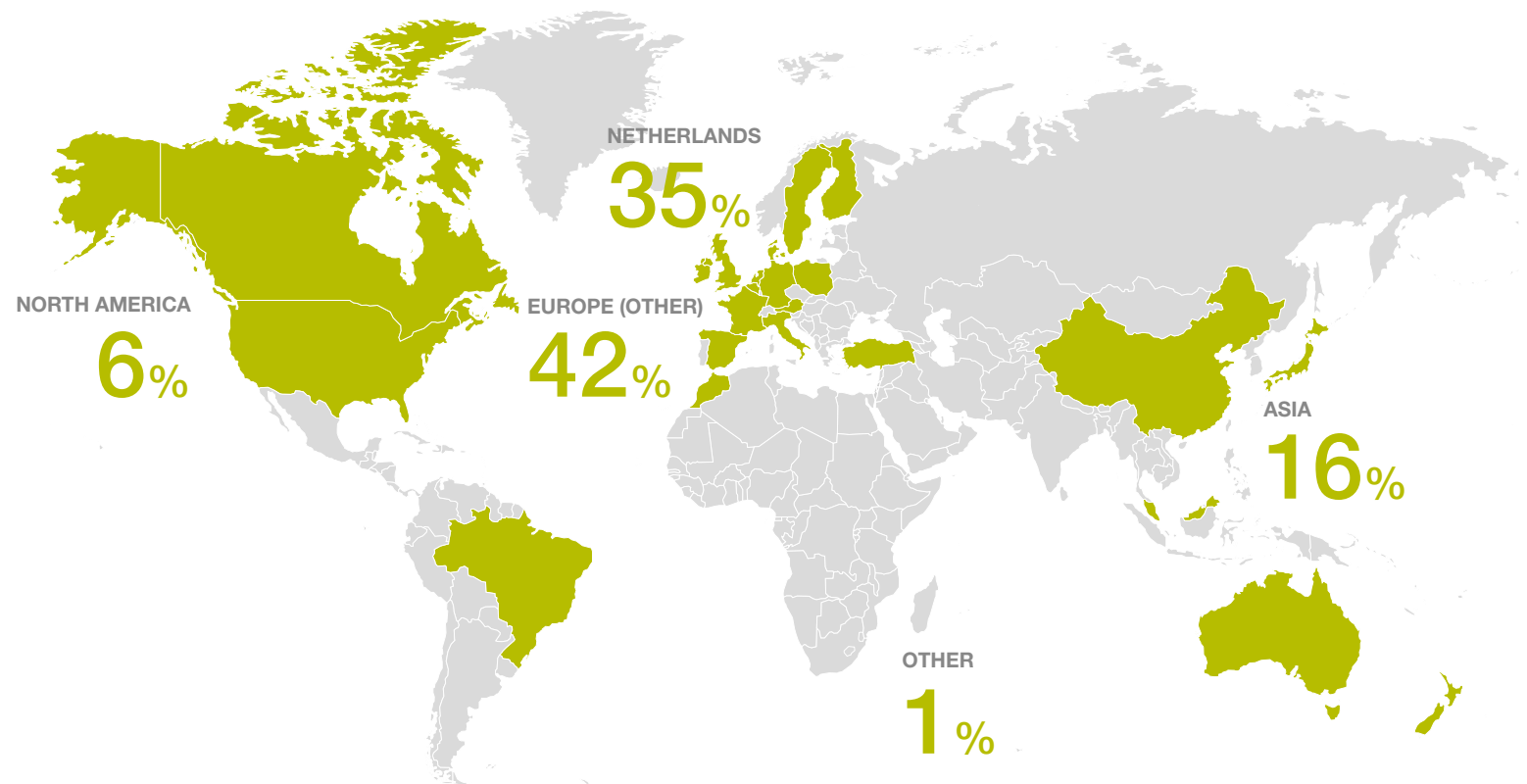


# THE TKH ORGANIZATION

TKH has a decentralized organizational structure, based on the business segments Telecom, Building and Industrial Solutions. This structure allows TKH to respond quickly and flexibly to opportunities in the market and customer needs. TKH's operations are characterized by short lines of communication, delegation of authority and entrepreneurship.

This structure promotes internal synergy and encourages to share experiences and knowledge. Capacity in the area of system integration, engineering, service and maintenance, logistics, assembly and production is also shared within and among the three business segments. TKH and its subsidiaries operate on a global scale. The growth is concentrated in Europe, North America and Asia.

EMPLOYEES PER REGION (in %)

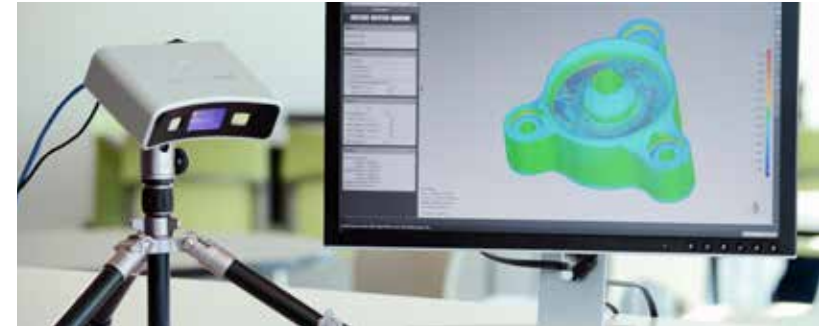


# OUR CORE TECHNOLOGIES

The TKH core technologies -*vision & security, communication, connectivity and manufacturing systems*- are interlinked into total systems and solutions. Besides entering into partnerships, we mainly focus on the development of advanced proprietary technologies. We have in-depth knowledge of processes and technologies and have insight in the markets in which our customers operate. This allows us to apply our technologies so that they provide clear added value for our customers.

Through application knowledge we develop tailor-made total solutions for specific vertical (growth) markets. Because the basic technologies can be implemented into multiple applications, a scale is arising what makes it possible to be distinctive and offer highly innovative technologies. Software plays an increasingly important role in the proper integration of the technologies and to make smart technology in the field of analysis and control. We contribute to a safer environment, and taking care for efficient and sustainable processes of our customers.

## Vision & security



## Communication



## Connectivity



## Manufacturing systems



Vision technology consists of 2D and 3D camera sensor technology and 3D laser technology, in combination with the digital processing of visual information to produce usable images or information for interpretation by people and/or machine. At TKH, vision technology among other things is used for inspection, quality, product and process control and plays an important role in, for example, medical solutions, industrial automation (tire manufacturing, automotive,

robotic and logistics) as well as in science research. Our security technology makes it possible to control and monitor the built environment in the field of safety, comfort and efficiency.

## VISION & SECURITY

- Video surveillance
- Safety cameras (explosion proof)
- Video management and analysis
- Guiding & lighting systems
- Access control & registration systems
- Industrial inspection & automation
- Robot control and diagnostics
- Quality control systems

Our communication technology focuses mainly on mission critical situations by means of speaking and listening connections, image communication, security and control. For security in buildings, the communication technology is usually combined with the group's vision and security technology building blocks. By means of our technologies, we promote efficiency, safety and security in, amongst other things, tunnels, multi-storey car parks, intramural and

extramural care, airports, football stadiums, schools and financial institutions.

## COMMUNICATION

- Mission critical communication
- Intercom systems
- (Personal) alarm systems
- Evacuation systems
- Emergency systems
- Building management & monitoring
- Public address
- Audio systems

With our connectivity technology, we focus on a complete portfolio of connectivity solutions for energy distribution, electrical applications in the construction and infrastructure sectors, as well as optical fibre systems for data and communication networks. In addition, we offer customized specialty cables, connectors and connectivity systems for applications in environments as the industrial, marine & offshore and medical sectors. We develop end produce advanced

connectivity technology for contactless energy and data distribution. The transport of energy and data is combined in a single cable system, a base station and contactless connection points. This innovative technology finds its application in airfields.

## CONNECTIVITY

- Subsea cable systems
- Marine cable systems
- Optical fibre connectivity
- Contactless energy & data connectivity
- Specialty cable systems for robot, medical & machine building industry
- Drag chain systems
- Multi-Media-Connect
- Connectivity systems for energy, building & infra sector

With its know-how in the field of the automation of production processes and improving the reliability and flexibility of manufacturing systems, TKH stands out in its ability to respond to the growing wishes of a number of specialized industrial sectors using its technologies, such as the tire building, robot and medical industries. The manufacturing systems are based on among others the advanced TKH vision technology. TKH deploys its technologies

for the control and monitoring of industrial processes, including complete production systems for the production of car and truck tires, can processing and healthcare industries. Systems engineering and assembly, control and analysis software, as well as connectivity and vision technology, are the basic building blocks for the distinctive manufacturing systems supplied by TKH.

## MANUFACTURING SYSTEMS

- Medicine distribution
- Tire assembling systems
- Tire component systems
- Passenger & truck tire systems
- Vision inspection
- Product handling systems
- Production automation
- Scada systems

# OUR SOLUTIONS

TKH focuses with its segmentation on the business segments Telecom Solutions, Building Solutions and Industrial Solutions. The TKH core technologies -*vision & security, communication, connectivity and manufacturing systems*- are interlinked into total systems and solutions in the three business segments. We are focusing within the business segments especially on the seven vertical growth markets in which our specialized knowledge and expertise are expressed even better and in which we can achieve an above-average growth and profitability.

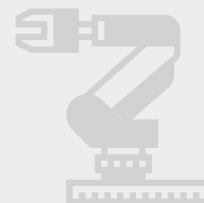
## Telecom Solutions



## Building Solutions



## Industrial Solutions



Telecom Solutions develops, produces and supplies systems ranging from basic outdoor infrastructure for telecom and CATV networks through to indoor home networking applications. The focus of the business is on the delivery of complete systems to make things as easy and convenient as possible for our customers, thanks to the system guarantees it provides. Around 40% of the portfolio consists of hub-to-hub optical fibre and copper cable systems. The remaining 60%, consisting of components and systems in the field of connectivity and peripherals, is deployed primarily in network hubs.

TKH Telecom Solutions operates in two sub-segments:

#### Indoor telecom & copper networks

Home networking systems, broadband connectivity, IPTV-software solutions, copper cable, connectivity systems and components, active peripherals.

#### Fibre network systems

Optical fibre and optical fibre cables, connectivity systems and components, active peripherals.

TURNOVER SHARE

12.6%

ROS

10.6%

Within Building Solutions, the core technologies vision & security, communication and connectivity are interlinked into total solutions for security and communication applications within and around buildings, in medical applications as well as for inspection, quality, product and process control. In addition, the focus is on efficiency solutions to shorten lead times for the realization of installations inside buildings as well as intelligent video, mission-critical communication, evacuation, access (control) and registration systems for some specific sectors, including healthcare, parking, shipbuilding and offshore, tunnels and airfields.

Building Solutions operates in two sub-segments:

#### Vision & security systems

Vision technology, systems for CCTV, video/audio analysis and detection, intercom, access control and registration, central control room integration, healthcare systems.

#### Connectivity systems

Specialty cable (systems) for marine, rail, infrastructure, wind energy as well as installation and energy cable for niche markets, structured cable systems and connectivity systems for contactless energy and data distribution.

TURNOVER SHARE

42.9%

ROS

10.9%

Industrial Solutions develops, produces and delivers solutions ranging from specialty cable, plug and play cable systems to integrated systems for the production of car and truck tires. The company's know-how in the automation of production processes and improvements in the efficiency and reliability of production systems gives TKH the differentiating potential to respond to the increasing desire to outsource the construction of production systems or modules in a number of specialized industrial sectors, such as tire building, robotics, medical and machine building industries.

Industrial Solutions operates in two sub-segments:

#### Connectivity systems

Specialty cable systems and modules for the medical, robot, automotive and machine building industries.

#### Manufacturing systems

Advanced manufacturing systems for car and truck tire industry, can washers, test equipment, product handling systems for the medical industry, machine operating systems.

TURNOVER SHARE

44.5%

ROS

13.3%



# OUR SEVEN VERTICAL GROWTH MARKETS

TKH focuses on seven important vertical growth markets -*Fibre Optic Networks, Care, Tunnel & Infra, Parking, Marine & Offshore, Industrial Machine Vision and Tire Building Industry*- in which and above-average growth and profitability can be achieved.

These are markets where we can achieve above-average growth driven by trends that call for high-priority investments in TKH core technologies. Due to our close contact with our customers, we know these markets well and we know what is happening and what the wishes are. The aim in particular is a high return on investment for our customers. In the next three to five years, we expect to achieve turnover growth of € 300 to € 500 million in the seven vertical growth markets.

## Fibre Optic Networks



## Care



## Tunnel & Infra



## Parking



TKH develops, produces and delivers a complete fibre optic network that also includes connectors, tubes, sleeves, fibre management systems, security systems, robot systems and other accessories, as well as the fibre optic cables themselves. Plug-and-play installation is possible for all of these so that projects can be completed efficiently and on time. Where needed, we help the customer by offering training courses and provide support during the engineering process, in constructing the networks, and with maintenance.

### GROWTH DRIVERS

- Data use through the impact of information and communication technology on the way we live our lives continues to grow and leads to a strong, increasing demand for broadband.
- Internet has become a basic service, like gas, water and electricity.
- Developments such as the 'Internet of Things', 'Industry 4.0' and 'Internet of Vehicles' will require a high (mobile) internet speed - emergence of 5G internet.
- 24-hour availability is becoming more established and accepted.
- Several European countries have announced investment plans for rollout of FttH projects to meet the strong increasing need for bandwidth.

Through a combination of electrical engineering and ICT, TKH provides intelligent solutions for the care sector in the areas of observation, security, visual communications, social alarms and video care for hospital care and home care. The guiding principle here is that security and alarms can be individually geared to the client or resident's care needs. TKH also supplies total solutions in care and nursing homes, care for the disabled, mental healthcare and hospitals. For the pharmaceutical industry, TKH develops fully automated systems for medicine packaging and distribution.

### GROWTH DRIVERS

- Life expectancy is continually increasing and healthcare spending will increase strongly due to more and better, but also more expensive care - therefore, the demand for technologies for care solutions is increasing.
- Changing healthcare funding: shifting from the government to the institutions and healthcare insurers.
- Innovations in the field of domotics, diagnostics, e-health and self-testing for prevention and screening, are providing new businesses in the sector.
- Shortage of skilled workers.
- Informal caregivers play an important role and, together with the client and the healthcare professionals, are equal partners - technology support is necessary for the required information exchange.
- The demand for medicines (volume) has been growing as a result of demographic developments, while the cost of care will have to be lowered.
- Increase central task of preparing medicines in a remote location - acceptance of robotics in pharmacy wholesale.

For the tunnel and infrastructure sector, TKH supplies innovative communications and security solutions including integrated image, intercom, public address and CCTV systems and fireproof connectivity systems as well as connectivity systems for contactless energy and data distribution. Our solutions satisfy the high requirements for safety, permitting tunnels, roads and air grounds to be opened safely and at the right time. In addition, we satisfy the strictest project conditions for both design and implementation.

### GROWTH DRIVERS

- In Europe, investment in tunnel technology for new and existing tunnel are planned for the next few years.
- Due to strict legislation and regulations in the field of security, ever increasing demands are made on the technical equipment.
- Increasing demand for technologies in order to comply with strict requirements: evacuation - communication - detection - identification - safety.
- Principals are shifting responsibilities to the contractors - formation of alliances between principals and contractor so that parties have a common interest in cost control.
- Availability infrastructure -tunnels, airfields and roads- needs to increase because of less and efficient maintenance.

TKH develops and produces innovative parking systems. These range from self-developed video analytics technology for monitoring car parks and streamlining traffic flow in parking garages to integrated access control, intercom and CCTV systems. Car parks can be managed from any place and at any time. We provide professional project management and support & advice in the design and construction of parking projects.

### GROWTH DRIVERS

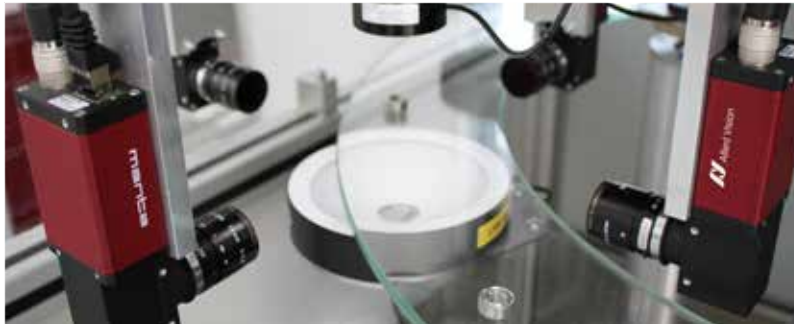
- Revenue from car parks is under pressure due to decline of traffic flow - need to reduce OPEX.
- Demand for providing a visual dashboard with parking information - managers and car park operators can react faster and more efficient to current situations.
- Increase capacity utilization and revenues by means of differentiated parking fee.
- Demand for comfort and convenience for parkers.
- Use of technologies to improve safety, access and payment possibilities.
- Emergence of demand for frictionless parking for an optimal parking experience.

## Marine & Offshore



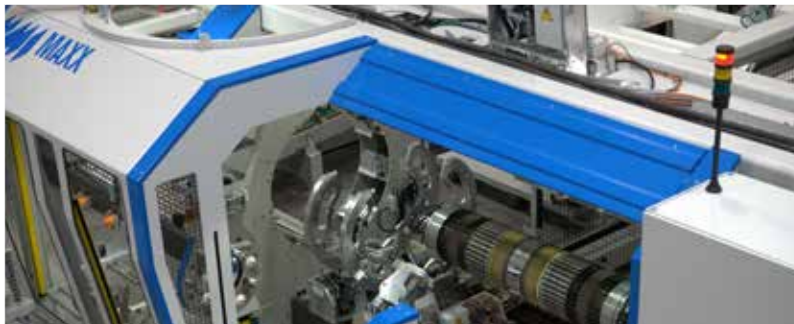
TKH supplies for the marine & offshore industry innovative connectivity systems as well as integrated security and communications systems for use on board of ships and on platforms. Many of our solutions focus on security, safety and efficiency with a high return on investment for the customer.

## Industrial Machine Vision



Industrial vision technology consists of 2D and 3D camera sensor technology and 3D laser technology, in combination with the digital processing of visual information to produce usable images or information for interpretation by people and/or machines. In Industrial Machine Vision, vision technology is used to monitor, control or adjust industrial processes. We supply to the robot industry, machine building, the medical industry, consumer electronics industry and the automotive industry.

## Tire Building Industry



TKH has used its decades of experience to evolve and refine the production technology for tire manufacturing that is essential for producing superior car and truck tires. TKH designs, manufactures, delivers and installs these innovative tire building systems that allow the production of tires with specific characteristics. We consider it a shared challenge to meet the needs of the most demanding customers.



### GROWTH DRIVERS

- Large increase global generated power by wind power.
- Demand for larger cargo ships and need for efficient external site management.
- Increase in the building of quality ships, cruise liners and luxury yachts.
- Increase of remote control and secure of unmanned operations on platforms.
- A lot of attention for safety on platforms via special 'zone' certification.
- Modification of supply chain due to limited storage capacity on shipyards and platforms and high cost of downtime.
- High demands on system availability under various environmental conditions, such as extreme temperatures, humidity, oil, salt water.

### GROWTH DRIVERS

- Demand for vision technology is increasing due to trend towards industrial automation and robotics need.
- Continue demand for more productivity and improvement of high quality of produced products.
- Vision technology is a superior alternative for the inspection of production systems and for detection, inspection and identification that cannot be seen by the human eye.
- Strong increase of new applications in which vision technology will be applied.
- Because of strict regulations to the quality of food and medicines, vision technology offers the solutions because of the 100% traceability and 'fail/pass' application.

### GROWTH DRIVERS

- High priority of the Tire Building Industry to replace existing technology with an emphasis on high productivity, efficiency, waste reduction, quality improvement and smaller batches.
- The number of types of tires for passenger cars has increased more than tenfold in recent decades. This calls for more flexible production methods.
- The trend towards ever larger tire dimensions and towards safer, better quality tires requires technological developments.
- Local production - innovations have become essential to reduce the working capital requirement in the supply chain of the Tire Building Industry.
- Over 70% of the existing tire building systems are older than 15 years.
- Due to the high prices of raw materials, there is a need for a more efficient use of materials in the production of tires, which asks for high tech manufacturing systems.
- Due to rising labour costs, demands for manufacturing systems with higher productivity and high operator independence - 'eyes & hands off' manufacturing.



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# VALUE CREATION MODEL

In order to show how value is created in the TKH Group, we use the value creation model of the IIRC (International Integrated Reporting Council). This model provides insight into the relationships and capital that we use in carrying out our business activities. We explain which resources (financial, produced, human, intellectual, natural, social & relations) we use to achieve our strategic objectives and which values we add with our core business.

Our business model is based on an ongoing, dynamic process. The starting point is the needs, wishes and requirements of our customers, and we like to contribute ideas to this. Over the years, we have transformed into a technology company and we focus on our four core technologies using detailed R&D road maps.

By integrating these technologies effectively, we create unique, innovative, total solutions that are suitable for multiple markets. By adding specific application know-how, we have become the specialist in our defined seven vertical growth markets and offer tailor-made solutions, but also, using standard technology platforms, the best possible solutions in terms of Return on Investment (ROI) and efficiency.

The engagement and contribution of all our employees play a decisive role in our value creation model. This model stimulates entrepreneurship and talent development within our group and motivates us to constantly improve our (long-term) value creation.

## INPUT

### FINANCIAL

Investors and banks provide us with capital through the capital and money markets. We invest capital particularly in our technologies and activities from which we expect an above-average and long-term return. In addition, we invest by means of acquisitions in companies that fits with our core technologies or strengthen our geographic footprint.

### PRODUCED

We have production sites where raw materials and components are processed into (semi-)manufactured and finished products. Our production method is based on LEAN and Six Sigma, among others, and our production companies are ISO 14001 certified. To maximize the ROCE and ensure flexibility of our capacity, the aim is to outsource as much of the capital-intensive production as possible. We aim to retain capital-intensive production capacity in-house where this is necessary for strategic reasons. This applies to the production of specialty cable, subsea cable, optical fibre, and optical fibre cable. Software is an increasingly important part of our product portfolio.

### HUMAN

We make use of skilled and talented people with various backgrounds. TKH strives to provide its employees with a safe and inspiring working environment. We offer them training courses and the other resources they need to be effective and to develop their skills. We believe that good primary elements of remuneration and fringe benefits, including a commensurate salary package, are very important.

### INTELLECTUAL

TKH has transformed over the years to become a technology company. Via solid R&D road maps, we focus on the development of four core technologies. We apply our expertise to provide innovative solutions with which we respond to the needs of the customer.

### NATURAL

TKH aims to contribute to a sustainable society. This means that every business decision is made not only in the light of its effect on profitability but also its possible consequences for the people involved in and around our organization, its impact on the environment and on our reputation. Sustainability in the supply chain is an increasingly important basis for operating sustainably as a company. As purchasing party, TKH enters into active dialogue with its strategic suppliers in order to improve the sustainability of their products and processes. They are thus able to make an important contribution to our sustainability goals.

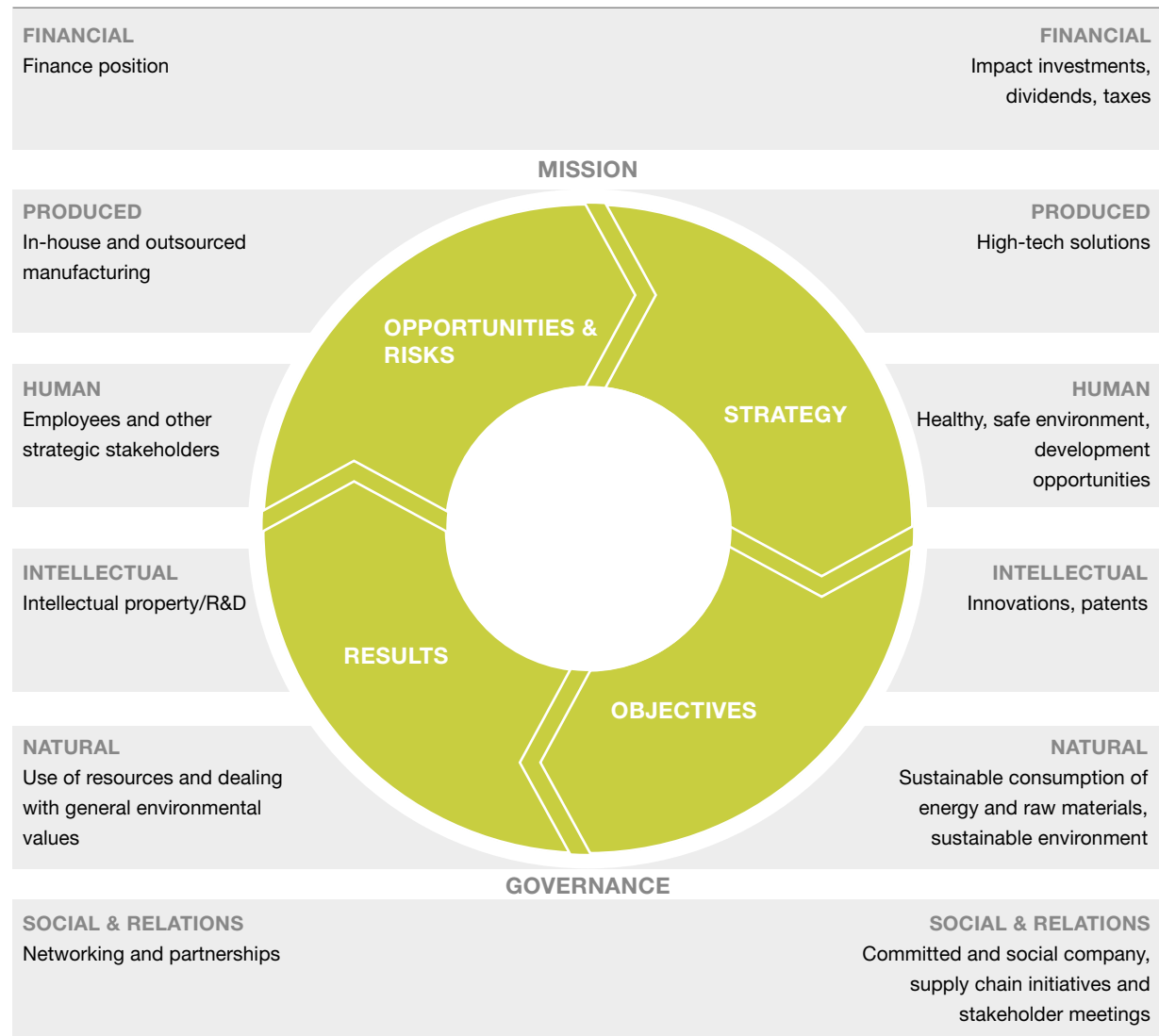


## VALUE CREATION MODEL

### SOCIAL & RELATIONSHIPS

We conduct our activities in accordance with principles of honesty, integrity and transparency. We strive for committed stakeholders and enter into dialogue with them in order to share our vision, strategy and expectations, with a view to gearing our business activities to these and optimizing them where necessary. We also believe that it is important to make a contribution to society and to invest in it.

### INPUT > BUSINESS ACTIVITIES > OUTPUT > OUTCOME



## OUTCOME

### FINANCIAL

- ROS: 10.9%.
- Net profit per share: € 2.04.
- Dividend pay-out ratio: 53.1% of net profit.
- Market capitalization: € 1.6 billion.
- Debt leverage ratio: 1.0.
- ROCE: 20.1%.

### PRODUCED

- Turnover : € 1,341.0 million.
- ISO14001 certification all production companies.

### HUMAN

- Staff costs: € 331.4 million.
- Number of training hours: 21 hrs/FTE.
- Employee satisfaction: 7.2.
- Absenteeism: 2.98%.
- Signed Codes of Conduct: 97%.

### INTELLECTUAL

- Innovations: 19.0%.
- R&D spending: € 50.3 million.
- Subsidies and tax savings through R&D: € 6.6 million.

### NATURAL

- Energy consumption: + 4.1%.
- Waste reduction: 15.0%.
- Recycling: 71.9%.

### SOCIAL & RELATIONSHIPS

- Customer satisfaction: 8.0.
- Community investments: 0.4% of net profit before amortization and one-off income and expenses.



## OUR STAKEHOLDERS

Our stakeholders are those groups and individuals who directly or indirectly influence the activities of TKH and its subsidiaries, or who are themselves influenced by these. Our strategic stakeholders include our employees, customers, suppliers, shareholders, analysts and other financiers. Also government bodies, educational and research institutions, organizations of civil society and trade associations (including NGOs).

In the context of our business operations and based on our position in the supply chain, we are in regular dialogue with our stakeholders. This allows us to share and check our vision, our strategy and our expectations with them, with a view to further tighten up these aspects in our business operations. When conducting stakeholder dialogue we often work together with our subsidiaries when its concerns customers, suppliers or employees.

### Doubling production capacity Commend in Salzburg

To keep up with the demand for its communication technology and because the existing SMD (Surface Mounted Device) reaches its capacity limits, Commend has invested in a new assembly facility in Salzburg (Austria). To the existing production capacity, it was a necessary expansion. The new facility is state-of-the-art technology for the production of semi-conductors.

# STAKEHOLDERS DIALOGUE

	RELEVANCE FOR TKH	RELEVANCE FOR THE STAKEHOLDER/ MOST IMPORTANT EXPECTATIONS	INTENDED RESULT OF THE DIALOGUE	MEANS OF COMMUNICATION
<b>Employees</b>	Employees are crucially important for the success of TKH. They are the ambassadors of the business and our most important social capital.	Good employment practices. Development opportunities, good salary and a good package of employee benefits. A safe and healthy working environment.	<ul style="list-style-type: none"> <li>Motivating and enthusing our employees.</li> <li>Increasing their sense of involvement.</li> <li>Entrepreneurship and development opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>Internet/intranet.</li> <li>Staff magazine.</li> <li>Employee satisfaction survey.</li> <li>Employee meetings.</li> <li>Conferences, webinars and seminars.</li> <li>Performance interviews.</li> </ul>
<b>Customers</b>	Buy products and services. Develop sustainable package of products and services by means of cooperation.	Offer products and services for the right price/quality ratio, which meet the demand and where the focus is on the interests of the customer. Good ROI.	<ul style="list-style-type: none"> <li>Customer loyalty.</li> <li>Translating customer needs into products, systems and (total) solutions.</li> <li>Chain approach.</li> </ul>	<ul style="list-style-type: none"> <li>Business negotiations.</li> <li>Internet.</li> <li>Events, symposia and exhibitions.</li> <li>Customer satisfaction survey.</li> </ul>
<b>Suppliers</b>	Supply of services and products for our business operations.	Fair and good business practices at market rates.	<ul style="list-style-type: none"> <li>Sustainable product development.</li> <li>Chain initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>Business contacts.</li> <li>Negotiations.</li> <li>Code of supply &amp; site visits.</li> </ul>
<b>Shareholders</b>	Investment through shareholding in TKH that strengthens our capital position.	Good return on investment with good dividend policy and value creation.	<ul style="list-style-type: none"> <li>Communication on (strategic) developments.</li> <li>Continuation of confidence and involvement.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Financial reports, annual reports.</li> <li>General meeting of shareholders.</li> <li>Investor days.</li> </ul>
<b>Analysts</b>	On the basis of analysis and research, prepare profiles and ratings on the basis of which the investor can make a selection for his investments.	Transparent communication about developments.	<ul style="list-style-type: none"> <li>Optimal image of our company.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Financial reports, annual reports.</li> <li>IR meetings.</li> <li>Capital Markets Day.</li> <li>Reporting.</li> </ul>
<b>Banks</b>	Financial services provider enabling TKH, among other things, to realize its growth ambitions.	Creditworthy enterprise that is correctly balancing risks against returns and complies with contractual agreements.	<ul style="list-style-type: none"> <li>Communication about (strategic) developments, investments and possible business risks.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Financial reports, annual reports.</li> <li>Business discussions.</li> </ul>
<b>Government bodies</b>	Acting as initiator, facilitator of (chain) projects and driver of sustainable solutions.	Strengthen the economic attractiveness in the region with respect to business location and employment. Chain initiatives with a significant contribution to sustainability.	<ul style="list-style-type: none"> <li>Regional and national involvement with mutual interests with respect to continuity.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Network meetings and thematic meetings.</li> </ul>
<b>Academic and research institutions</b>	Influx of new talent in order to compensate for a shortage of technical personnel.	Providing a challenging work environment with ample development opportunities. Providing traineeships - gaining work experience.	<ul style="list-style-type: none"> <li>Filling job vacancies.</li> <li>Development opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Exhibitions and seminars.</li> <li>Social media.</li> </ul>
<b>Organizations of civil society and trade associations (including NGOs)</b>	Possesses an extensive network and knowledge of the positions in the supply chain. Expertise on specific sectors.	Thinking about and initiating partnerships.	<ul style="list-style-type: none"> <li>Developing knowledge sharing and supply chain initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Media coverage and reports.</li> <li>Annual report.</li> </ul>

# TRENDS, OPPORTUNITIES & RISKS

Entrepreneurship is inextricably linked to risks, but it also offers opportunities. To identify these opportunities and risks, we produce a SWOT matrix. It gives us insight into our internal and external position on the basis of market, competition and environmental analyses. By means of a comprehensive risk management system it is possible for us to identify significant risks at an early stage and subsequently quickly respond to them. We believe that the effective management of risks and the targeted use of opportunities are essential for the successful execution of our strategy.



## Economic / financial

Consumer spending is increasing and the labour market is picking up again. More is being spent on investments in sustainable technology and modern infrastructure. There is also a trend towards more globalization in the value chain. In contrast, there is still reticence and uncertainty about the economic growth in Asia, of which the negative effect on the world economy is difficult to assess. The impact of a sluggish Asian economy on TKH is mainly related to investments in capital goods within the industrial segment, which has implications for global investment. The economic impact of Brexit and divisions within the European Union is also still unclear. Although the volume of turnover in the UK is limited for TKH, we will continue to closely follow the developments.

## In the market

Companies must excel in their knowledge of specific customer needs and differentiate themselves with innovative product designs and services. The call for efficiency and the importance of being able to offer integrated total solutions and short lead times is growing and offers competitive advantage. Product life-cycles are becoming increasingly shorter, which also calls for faster and better innovation in order to retain and improve our competitive position. What's more, products are becoming more and more personalized. And as a result, production runs are becoming ever smaller and account is already taken of this in the engineering phase by building modular products. Digitally linking

processes from supplier to customer will generate greater efficiency. The geopolitical situation is uncertain. The threat of terrorist attacks has increased further, resulting in a considerable demand for technologies in the field of safety and security.

## Intellectual

We are constantly online and many objects are connected to the internet. In the home environment, they together form the 'internet of things'. Consequently, the demand for carefully designed and effectively managed network connections and high-speed wireless networks is growing constantly. 24-hour accessibility has become a matter of course. This results in the need to monitor privacy as much as possible and in an increasing threat of cyber crime. Industry 4.0 is the industrial side of the 'internet of things'. Productivity will be increased through 'smart factories' with intelligent 'zero-defect' processes and new production technologies. These smart factories contribute to more efficient use of energy and raw materials and better interaction between manufacturers, chain partners and customers. By means of vision technology, large amounts of data are generated for an efficient and more precise production process, enabling machines to learn and operate themselves. This leads to a safer environment and more efficient production. Analyses become more reliable and production systems deliver faster and better products. Vision technology also plays a major role in the rapid rise of robotization. With technologies such as augmented reality, mixed reality and virtual reality the possibilities are endless and their first business applications are already beginning to emerge. Examples include the remote performance of maintenance on machines and the virtual training of engineers.

## Social and human

The composition and age structure of the working population is changing. As the population grows older, chronic and lifestyle-related diseases will increase. Beside, healthcare costs are rising. Technology and innovations play an important role to meet the demand for healthcare. The extent to which robots and technological developments lead to new jobs or rather a loss of jobs is also examined. Which required knowledge is needed and how can it be acquired. Important know-how is flowing out of companies due to an ageing population and this cannot be adequately replenished due to a shortage of well-trained technical staff. Collaboration between companies and educational institutions is becoming more urgent, as too is the need



for companies to train their own people. Moreover, due to the use of advanced automation, the core of the work is becoming more knowledge-intensive. This imposes immediate demands on the working and thinking level of the employees. In 2020, half of the workforce will consist of 'Millennials' (Generation 'Y'). This generation is used to being reachable the whole day long and to share information with their social networks. Work and private life are becoming integrated into new lifestyles and demand companies to follow suit. In recent years there has been an increasing demand from society for companies to become more socially active due to, for example, a retreating (or reorienting) government.

### Sustainability

Resources are becoming depleted due to the high consumption of raw materials. Commodity prices are increasingly volatile due to continuing climate change, further integration of the world economy and the associated global consequences of local events. The Circular Economy, which aims to maximize the re-usability of products and raw materials in order to minimize value destruction, is regarded as an answer to this scarcity. The global demand for energy will increase sharply in the coming decades, while the stocks of fossil fuels are becoming scarcer and harder to extract. This tension between supply and demand leads to considerable price increases and the development of renewable energy generation such as wind power. Moreover, governments are increasingly asking companies to take measures to drastically reduce CO<sub>2</sub> emissions. In the chain, sustainable solutions are being developed by means of partnerships. Technologies play an important role in the approach of sustainability issues, such as in relation to the quality of life, energy saving and safety. Identifying relevant trends enables TKH to pursue its strategic direction and associated objectives. These trends constitute the basis of the external SWOT analysis of opportunities and threats.

## SWOT ANALYSIS

### STRENGTHS

- Innovative core technologies which can be connected into total solutions, including engineering, service and maintenance.
- Strong positions in defined vertical growth markets by distinguished technologies and high innovation share.
- Efficient R&D organization and high level of R&D investments.
- Protection technology and IP rights by means of patents.
- Benefits of scale through internal cooperation and spread of technologies over different product-market combinations and geographic markets.
- A highly flexible niche player who offers specific solutions for customers.
- Partnerships with suppliers of specific technology components or solutions.
- A good reputation and financial strength.
- highly flexible production capacity, because more than 70% of the capital-intensive production is outsourced.
- Successful acquisition policy and effective integration of acquired companies in the organization.
- An organization structure with local entrepreneurship and innovative strength.
- The quality and commitment of staff.

### WEAKNESSES

- Limited global position in some key markets.
- Dependence on government measures in some markets, including care, construction and infrastructure.
- Brand awareness in a number of geographical markets.

### OPPORTUNITIES

- Sustained increase in demand for high-quality technological solutions, aimed at efficiency, safety and security.
- Trend among customers towards outsourcing technology.
- Emergence of the 'Internet of Things' and 'Industry 4.0'.
- Robotics trend offers opportunities for vision technology.
- Above average growth possibilities in defined vertical growth markets, both geographically and in market share.
- A large proportion of solutions are still in the early stage of their life cycle.
- The growing share of software in solutions and service component.
- Attractiveness as an employer due to focus on entrepreneurship and development opportunities.
- Attention for corporate social responsibility.

### THREATS

- Geopolitical global situation.
- Speed of technological developments.
- Possible new technologies from competitors with more prospects than TKH's technologies.
- Harmonization of niche specifications into standard commodity solutions.
- Scarcity of highly qualified, technical specialists.
- Shortage of raw materials and fluctuating raw material prices and currency rates.
- Strong economic slowdown.
- Financial position of suppliers and customers.
- Risk of cyber crime.

This SWOT analysis implies the following In terms of specific challenges.

#### Strengths that can be used to seize opportunities.

- The company's financial strength can be used for further investments in technological developments to generate organic growth in the promising market segments in which TKH operates.
- TKH's European positioning, scale and innovations can be used to profit optimally from the possibilities to increase market share on the basis of its distinctive capabilities.

#### Strengths that can be used to stave off threats.

- By using the company's healthy financial position to develop innovations in an effort to maintain a constant lead with our own technologies and distinctive capabilities it will be possible fend off the competition.
- Spreading activities over different product-market combinations and focus on vertical growth markets will make TKH less vulnerable to an economic slowdown.
- Our good reputation as an attractive employer can be used to recruit talented employees.

#### TKH can transform the following weaknesses into strengths.

- Global position - increasing presence in several international markets from the defined vertical growth markets.
- Limit dependence on public-sector investments by focusing on defined vertical growth markets that are driven by investments with high returns.
- Build brand awareness by increasing reference projects in markets where brand awareness is limited and aim for an intensive market positioning.



# STRATEGY & OBJECTIVES

As part of the strategy process, four priority areas are identified: core technologies & innovation, growth & scale, value creation & financial objectives and sustainability. For each of these priority areas, we have formulated our strategic direction and defined specific objectives in order to flesh out the strategic process.

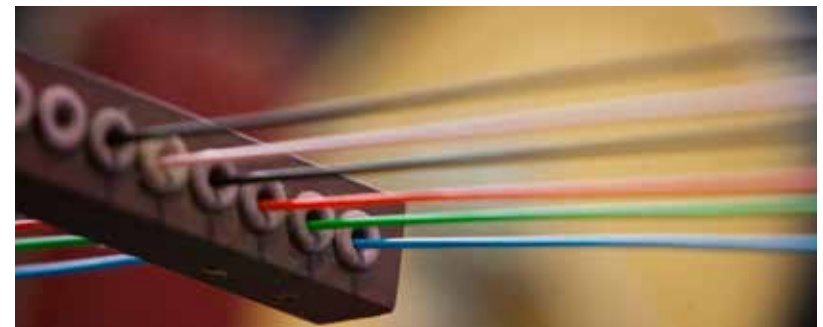
Core technologies & innovations



Growth & scale



Value creation & financial objectives



Corporate social responsibility (CSR)



## Core technologies & innovations

Constant attention to innovation produces an advanced range of products and services that guarantee technologically advanced solutions. With our four core technologies -*vision & security, communication, connectivity and manufacturing systems*- we respond to growth trends and are able to offer total solutions by combining these technologies. The aim is a high return on the investment in our customers. Innovative strength is an important cornerstone for our positioning. Our target is to generate at least 15% of turnover through innovations introduced in the previous two years. A major part of our portfolio is at an early stage of their life cycle. TKH mainly focuses on developing its own core technologies, but also works closely with third parties in the field of development. Whenever TKH works in partnership with third parties it tries to retain ownership of the technology or stipulate that third parties will supply the technology exclusively to TKH in the countries where it operates.

## Growth & scale

Within its business segments, TKH has defined seven vertical growth markets where it expects to achieve turnover growth of between € 300 and € 500 million in the next three to five years. We are focusing on securing a leading position in niche markets. We expand through organic growth and by virtue of acquisitions. The geographical spread and expansion of successful TKH activities and the transfer of knowledge from competence centres offers opportunities for international growth. Geographically, the focus for growth lies on Europe, North America and Asia, but also on other parts of the world in the case of activities within our vertical growth markets. The emphasis in acquisitions is on structurally sound companies with a strong position in segments that are important to TKH. TKH's aim is to make an average of between one and three acquisitions a year, each representing turnover of between € 10 million and € 50 million. In doing so, we focus on acquisition opportunities that align with our four core technologies and their related vertical growth markets. The focus in the near future will be on organic growth and optimally integrating the businesses already acquired into the TKH organization, with the greatest priorities being to foster cooperation and combine strengths in the core technologies in order to target the vertical growth markets.

## Value creation & financial objectives

TKH aims to achieve above-average annual growth in earnings per share. Within TKH's strategy we therefore make effective use of opportunities for growth and limit (financial) risks. Healthy balance sheet ratios and a strong operating cash flow have a high priority in the development of the company. TKH strives for a solvency ratio of at least 35% and a maximum Net Debt/EBITDA of 2.0. By shifting to activities with greater added value and thus potentially higher margins, together with the growing share of activities showing above-average performance, the bandwidth for the medium-term ROS target has been set at between 11% and 12%. For the ROCE, the medium-term target is a bandwidth of between 20% and 22%. To maximize the ROCE and ensure flexibility of our capacity, the aim is to outsource as much of the capital-intensive production as possible. We aim to retain capital-intensive production capacity in-house where this is necessary for strategic reasons. This applies to the production of specialty cable, optical fibre and optical fibre cable.

## Corporate social responsibility (CSR)

Implementing our strategy and achieving our objectives, we are aware of our social responsibilities and obligations towards all the company's stakeholders. In our view sustainable operations can only be achieved if an integrated approach to CSR policy is embedded in the daily operations. In order to optimally guarantee our societal, social and environmental responsibility, we focus on themes that are material for us and our stakeholders, on which our impact is material and over which we can also exercise influence. We take account of the impact of our activities and business operations in four domains: People, Planet, Profit and Positioning. So, we want to contribute to the climate issue through energy reduction programs. Through efficient supply chains we want to create reduction in waste. Being a good employer for our employees and offer them a safe working environment with plenty of opportunities for development.

### INNOVATIONS

>15%

### EXPECTED GROWTH IN VERTICAL GROWTH MARKETS

300-500  
million euros

### NET DEBT / EBITDA

<2.0

### WASTE REDUCTION















>5%

# BUILDING BLOCKS VERTICAL GROWTH MARKETS

TKH has defined seven vertical growth markets where it expects above average growth because of trends that lead to a high priority for investment in TKH's core technologies. The next 3 to 5 years, we expect to achieve turnover growth in seven vertical growth markets of € 300 to € 500 million.

Strong foundation for growth in defined vertical growth markets with a focus on 25 growth building blocks.

To be able to achieve this growth, we have defined action plans on the basis of 25 building blocks. These 25 building blocks are making the foundation to realize the defined growth. It gives us a clear strategic focus and gives us guidance regarding investment plans and the roll-out of market opportunities.

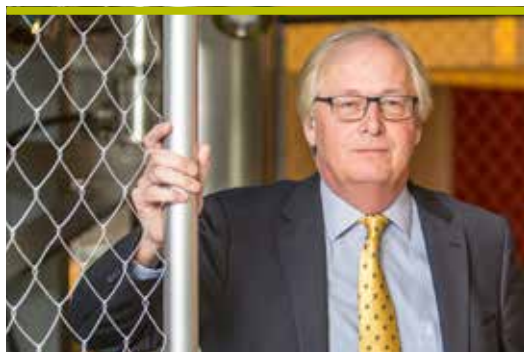
<b>Fibre Optic Networks</b> 	<b>Care</b> 	<b>Tunnel &amp; Infra</b> 	<b>Parking</b> 	<b>Marine &amp; Offshore</b> 	<b>Industrial Machine Vision</b> 	<b>Tire Building Industry</b> 
MARKET SHARE GROWTH FRANCE / GERMANY / NORDICS / POLAND	INTERNATIONALIZATION HOMECARE & COMMUNITY PLATFORM	AIRFIELD GROUND LIGHTING-TECHNOLOGY BASED ON CEDD- TECHNOLOGY	DIFFERENTIATION VIA SMART-SENSOR / CCTV TO 'FRICTIONLESS' PARKING	CONNECTIVITY-SOLUTIONS FOR SUBSEA	HIGH MARKET GROWTH 2D-INSPECTION IN COMBINATION WITH INNOVATIONS	MARKET SHARE GROWTH WITHIN TOP 5-TIRE MANUFACTURERS
ROBOT SOLUTIONS FOR PATCHING - SAODF	INTERNATIONALIZATION OF INTEGRATED VISION & SECURITY SOLUTIONS FOR HOSPITALS	INTERNATIONALIZATION OF INTEGRATED VISION & SECURITY SOLUTIONS FOR TUNNELS	INTERNATIONALIZATION OF INTEGRATED VISION & SECURITY SOLUTIONS FOR PARKING GARAGES	INTERNATIONALIZATION OF INTEGRATED VISION & SECURITY SOLUTIONS	HIGH MARKET GROWTH 3D-INSPECTION IN COMBINATION WITH INNOVATIONS	MARKET SHARE GROWTH 'TIRE COMPONENT PREPARATION', TRUCK TIRES & 'LIGHT TRUCK TIRE MANUFACTURING'
SMART SECURITY SOLUTIONS FOR POP'S	BLISTERING-TECHNOLOGY FOR PHARMACY - INDIVION	MARKET SHARE GROWTH BENELUX / NORDICS	MARKET GROWTH AND TKH POSITIONING NORTH- AMERICA / EUROPE / AUSTRALIA / MIDDLE EAST	INTERNATIONALIZATION OF CONNECTIVITY-SOLUTIONS	MARKET SHARE GROWTH NORTH-AMERICA / EUROPE / ASIA	NEW TIRE BUILDING PLATFORM - UNIXX & MILEXX
	DISPENSER-TECHNOLOGY FOR MEDICINES			SPECIAL PORTFOLIO 'MISSION CRITICAL' COMMUNICATION	MEDICAL AND TIRE BUILDING INSPECTION SYSTEMS	INCREASE SHARE IN TURNOVER SERVICE & SPARE PARTS BUSINESS
						

## 25 Report of the Executive Board

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# REPORT OF THE EXECUTIVE BOARD

## EXECUTIVE BOARD



**J.M.A. (Alexander) van der Lof MBA**

(1958), *chairman and CEO*

Alexander van der Lof started his career in 1985 at TKH subsidiary BV Twentsche Kabelfabriek (TKF) and held various management positions, most recently as Commercial Director. In addition to his career at TKF, Mr. Van der Lof was Company Secretary of TKH Group for a number of years. In 1998, Mr. Van der Lof became a member of the Executive Board of TKH Group and Chief Financial Officer. Since 2001 he has been chairman of the Executive Board and Chief Executive Officer (CEO) of TKH Group. Within the Executive Board, Mr. Van der Lof is responsible for the business segment Industrial Solutions.



**E.D.H. (Elling) de Lange MBA**

(1965), *member and CFO*

Elling de Lange MBA has been employed at TKH since 1998, first as a member of the Board of C&C Partners in Poland. In 2002, he became Financial Director of the Chinese cable production companies TFO and ZTC and CEO of those companies in 2003. Since 2006, Mr. de Lange has also been responsible for the Dutch-Chinese cable production companies. Mr. De Lange has been a member of the Executive Board and Chief Financial Officer (CFO) of TKH Group since 2008. Before he joined TKH Group, he served in several international management positions within Ballast Nedam. Mr. De Lange is responsible for the business segment Telecom Solutions.



**A.E. (Arne) Dehn**

(1969), *member*

Arne Dehn joined the Executive Board of TKH in 2011. Mr. Dehn is German and has ample international management experience with companies such as Honeywell Automation Controls Business, where he was ultimately responsible for ESSER & Ackermann in Germany. Mr. Dehn is responsible for the business segment Building Solutions.



# GENERAL DEVELOPMENTS

Despite the fact that 2016 saw a downturn in both turnover and profit as compared to 2015, TKH can still look back on a successful year. The fourth quarter, with record turnover and profit levels, came as solid confirmation that TKH has chosen the correct strategy and focus.

It was clear from early on in the year that China's continuing reluctance to place orders would have an impact on turnover and profit in 2016. Above all the low order intake from China within Industrial Solutions had a negative effect on both turnover and profit. In the second half of the year, the capacity utilization at our factories rose, due to a relatively high level of production as compared with the first six months. During those first six months, many preparations were made for the production and deliveries planned for the second six months, while production levels themselves were still at a lower level. As a result, despite the low order intake, by mid-2016 the order book was relatively high with a good starting position for the level of production in the second half. The major challenge of raising production capacity in the second six months to the desired output, was organized on an efficient way. As a consequence, ROS rose in the fourth quarter to 12.8% (Q4 2015: 11.6%).

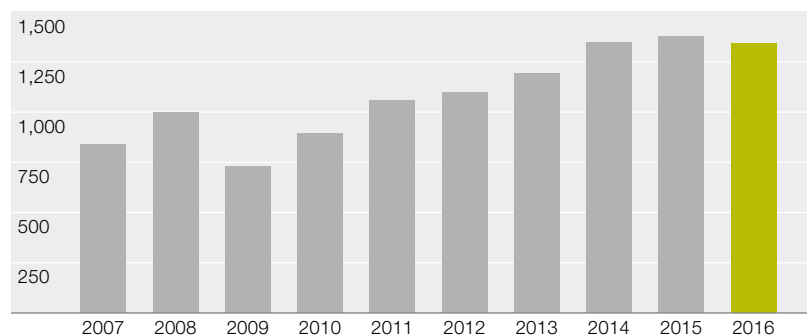
Within Building Solutions, the significant downturn in investment levels in the oil and gas industry and the marine sector had a clear effect. By making investments in the international commercial organization, and by successfully matching our innovations with market demand, the growth in market share in the second six months helped compensate for the low level of investments. The order book had grown strongly by the end of the year.

Telecom Solutions succeeded in improving its results. This was mainly thanks to the situation in Asia, where we saw strong growth in the demand for optical fibre systems.

During the first six months of the year, the decision was taken to further increase R&D expenditure. The positive feedback from customers in respect of a number of innovations and the related stimulation to bring forward market introduction dates meant that a number of R&D programs were accelerated. R&D expenditure as a percentage of turnover rose from 3.4% to 3.8%, and in absolute terms from € 46.5 million to € 50.3 million. During the fourth quarter, the R&D expenditure was extensively monitored, and the decision was taken to further raise expenditure levels in 2017, on the basis of the changes and possibilities within a number of our core technologies, including the mission-critical communication and machine vision technology.

## TURNOVER

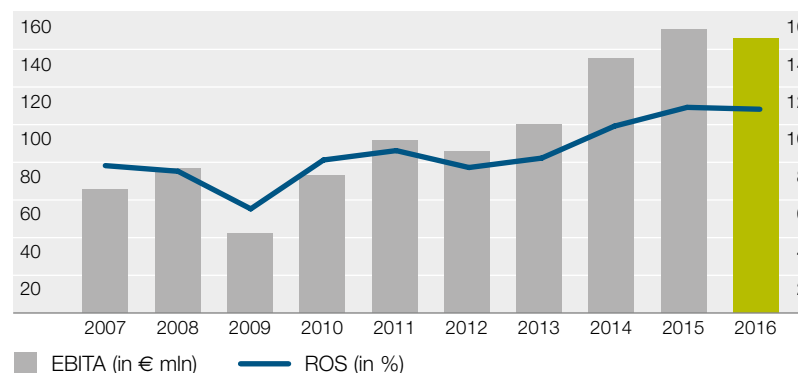
in million €



## EBITA AND ROS DEVELOPMENT

in million €

in %



Turnover within the vertical growth markets fell by 3.3% to € 674 million. When the figures for 2015 were published, limited growth was already anticipated, and the expectation was announced that further growth was not expected to materialize until 2018 and beyond. Due to a continuing cautious attitude towards investments, order intake in a number of segments remained below original estimates in the first three quarters. This reluctance to invest was particularly prevalent in China, for the tire building industry, and to a lesser extent in the vertical growth market Machine Vision. In addition, due to a lower level of investment in the oil and gas industry and marine sector, turnover in the vertical growth market Marine & Offshore also fell. On the other hand, growth was achieved in the vertical growth markets Fibre Optic Networks, Parking and Care.

The strategic development and in particular the development of activities within the vertical growth markets received considerable attention in the year under review. The focus on our core technologies and the seven vertical growth markets once again delivered clear added value in our efforts to achieve medium-term growth objectives. It was determined that the potential of all vertical growth markets continues to be positive, above all thanks to the opportunities offered by the innovations currently in the pipeline, and the prospects those innovations offer for expanding market share. The acceleration of the R&D programs led to more output, thereby ensuring that the planned innovations were delivered on time. This already had a positive effect on order intake during the final months of 2016, so that the starting position for growth in 2017 is better than it was in 2016. The share of turnover from the vertical growth markets was higher in the fourth quarter than in the preceding quarters, which translated into a higher ROS, in that fourth quarter.

Realizing the medium-term objective of achieving growth of between € 300 and € 500 million in three to five years is based on the solid foundation of 25 building blocks within the defined seven vertical growth markets. Close monitoring and implementation of these building blocks, sometimes with week by week follow-up by the Executive Board, has meant that solid progress has been achieved. It is also of key importance that the risks have been precisely mapped out, and measures have been taken to limit those risks, and increase the likelihood of success. We can conclude that we are well on course to realize the outlined growth scenarios.

Turnover outside the vertical growth markets fell by 1.7% to € 667 million, mainly due to the fall in raw materials prices. Turnover was also negatively influenced by the planned downscaling of less profitable turnover, in line with the strategic focus. These actions further strengthened the foundations for realizing our ROS and ROCE targets. This turnover is and remains very important, since the same technology platforms are deployed here, as in the seven vertical growth markets. The additional economies of scale we can achieve as a consequence will have a positive effect on margins, thanks to the positive volume effect on cost price per unit.

Above all the process of working together on specific targets and the perception of the value of cooperation in vertical growth markets have made an important contribution to strengthening our market positions. This has led to a further positive impact on the motivation and enthusiasm among our people, which in turn is contributing to the drive to realize our objectives. The success of using disruptive technology to distinguish ourselves on the market is a particularly strong strategic principle that offers us excellent future prospects for value creation.

The international position of TKH is well expressed in the share of turnover outside the Netherlands, at 81% (2015: 81%). Outside the Netherlands, our market share in Europe rose from 43% to 45%, due to a rise in turnover in Germany, the Nordics and in Eastern Europe. The share of turnover in Asia fell from 23% to 20%, due to the already mentioned reluctance to invest in the industrial sector. The turnover share in North America rose from 12% to 13%.

The share of innovations in turnover at TKH, at 19.0%, was once more high, again exceeding our objective that 15% of turnover must be generated by innovations introduced in the previous two years.

Due to advances in the implementation of our plans, we are on track to realize the medium-term ROS and ROCE objectives that were raised at the start of 2016 to respectively 11-12% and 20-22%. For the whole of 2016, the realized ROS and ROCE levels amounted to respectively 10.9% and 20.1%.

# FINANCIAL DEVELOPMENTS

In 2016, turnover declined by € 34.2 million (2.5%) to € 1,341.0 million (2015: € 1,375.2 million). Turnover declined organically by 0.8%. The divestment of Parking & Protection resulted in a 0.4% decline in turnover, while acquisitions accounted for a 0.1% increase in turnover. Lower raw materials prices had a negative impact of 0.9% on turnover. On average weaker foreign currencies vis-à-vis the euro had a negative impact of 0.5% on turnover.

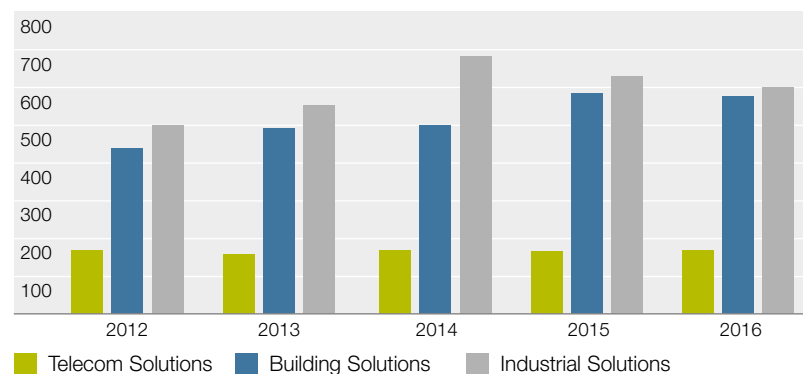
Organic turnover in Industrial Solutions was down 3.7% in 2016, while the fourth quarter showed organic growth of 6.8%. At Telecom Solutions, turnover increased organically by 2.4% in 2016, while Building Solutions recorded organic turnover growth of 1.5%. The contribution from Industrial Solutions to overall turnover in 2016 declined to 44.5% from 45.6% in 2015, while the contribution from Building Solutions increased to 42.9% from 42.3%. Telecom Solutions saw its contribution increase to 12.6%, from 12.1%.

The gross margin rose to 47.1% in 2016, from 46.0% in 2015, thanks to an improved product mix and on average lower raw materials prices. Operating costs were 0.9% higher than in 2015. Operating costs as a percentage of turnover increased to 36.1% in 2016, from 34.9% in 2015. This relative increase was largely due to an increase in R&D spending, in particular at Building Solutions to prepare for the targeted growth in our vertical growth markets, combined with lower turnover levels. R&D spending increased to € 50.3 million in 2016 (2015: € 46.5 million). Depreciations came in at € 22.1 million and were € 0.7 million higher than in 2015, due to the higher level of investments. The operating result before amortization of intangible assets and one-off income and expenses (EBITA) was down 3.3% at € 146.5 million in 2016, from € 151.5 million in 2015. The EBITA at Telecom Solutions was up 13.3%. At Building Solutions, the EBITA was down 3.5% and at Industrial Solutions the EBITA was 6.3% lower. ROS came in lower at 10.9% (2015: 11.0%). Amortization costs increased by € 1.0 million to € 32.6 million in 2016, due primarily to higher R&D spending. In addition, TKH recognized impairments of on balance € 0.2 million.

In 2016, financial expenses declined by € 0.7 million to € 7.5 million. This improvement was due to a lower average outstanding net bank debt. Currency exchange rates had a negative impact of € 0.1 million in 2016, compared to a positive impact of € 0.4 million in 2015. The result from participations came in € 0.3 million higher.

## TURNOVER PER SOLUTIONS SEGMENT

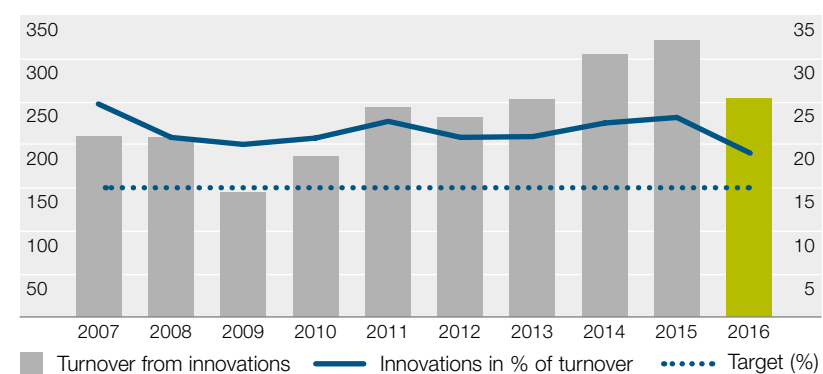
in million €



## TURNOVER FROM INNOVATIONS

in million €

in %



The tax rate declined to 18.4% (2015: 20.6%) on the back of one-off tax income of on balance € 2.6 million, due to the recognition of a deferred tax asset as a result of the valuation of previously unrecognized tax losses. As in previous years, the application of the Dutch innovation box rate had a positive impact on the tax rate.

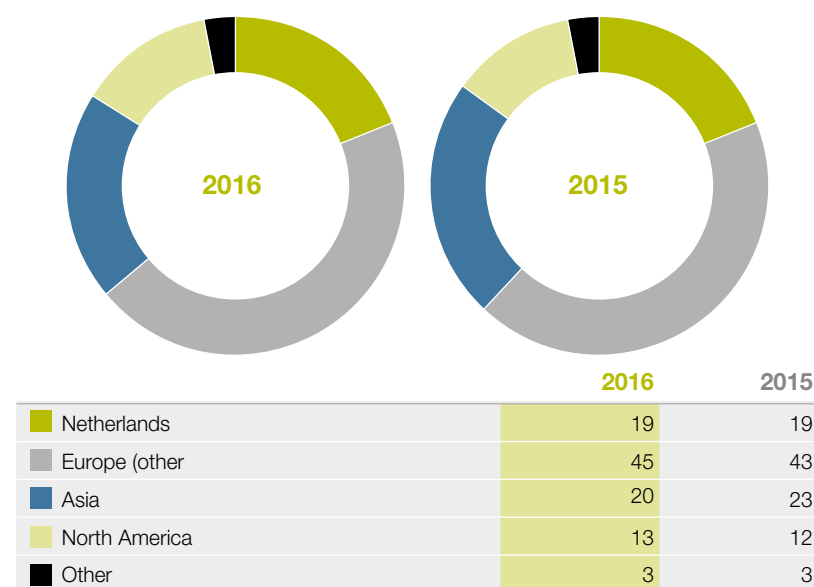
Net profit before amortization and one-off income and expenses attributable to shareholders amounted to € 94.4 million in 2016 (2015: € 99.9 million), a decline of 5.6%. Net result for 2016 fell to € 87.3 million (2015: € 88.3 million). Earnings per share before amortization and one-off income and expenses came in at € 2.25 (2015: € 2.40). Ordinary earnings per share were € 2.04 (2015: € 2.07).

The cash flow from operating activities was € 103.4 million (2015: € 181.6 million). This decline was due to an increase in working capital, while working capital declined in 2015. At year-end 2016, working capital as a percentage of turnover had risen to 13.4% (2015: 11.3%). Net investments in tangible fixed assets were € 45.5 million in 2016 (2015: € 38.5 million). A large proportion of these were investments in production facilities, including an expansion of capacity for the sub-segments vision & security systems, building connectivity systems and manufacturing systems. In addition, we invested € 28.9 million in intangible fixed assets in 2016 (2015: € 25.4 million), largely in R&D, patents, licenses and software. Cash out related to acquisitions came in at € 0.8 million.

Solvency rose to 46.7% in 2016 (2015: 42.2%). The net bank debt calculated in line with the bank covenants stood at € 166.1 million at year-end 2016, up € 5.1 million from year-end 2015. The net debt/EBITDA ratio came in at 1.0. TKH operates well within the ratios agreed with its banks. At the end of 2016 an amended committed credit facility of € 350 million was negotiated with a group of banks, which was formalized in January 2017, with a term of five years and an option for two one-year extensions. The new facility is subject to the same financial covenants as the previous facility in terms of debt leverage, namely a maximum ratio of 3.0. The interest coverage ratio does not apply any more.

TKH had a total of 5,509 employees (FTEs) at year-end 2016 (2015: 5,387). In addition, the company had 439 temporary employees (FTEs) (2015: 441 FTEs). Based on the growth plans, further growth is expected in the coming years.

#### GEOGRAPHICAL DISTRIBUTION OF TURNOVER in %





# DEVELOPMENTS PER SOLUTIONS SEGMENT

## TELECOM SOLUTIONS



Turnover in the Telecom Solutions segment increased by 1.4% to € 168.5 million. Organic turnover growth stood at 2.4%, while currency effects had a negative impact of 1.0% on turnover. The organic growth came from the sub-segment fibre network systems. Demand for optical fibre network systems in the Netherlands and Poland was down, but this was more than offset by growth in Germany and strong demand for optical fibre in China.

EBITA increased by € 2.1 million on the back of higher capacity utilization and efficiency improvements in production. ROS improved to 10.6%, from 9.5%.

### Fibre network systems

Turnover in this sub-segment saw organic growth of 7.4%. The decline in demand for copper networks was not yet compensated by the construction of optical fibre networks in the Netherlands. In Poland, a decline in European subsidies had a negative impact on the willingness to invest, while an increase in turnover was recorded in Germany and in China. There was scarcity in the field of optical fibre on the Chinese market resulting in growth with healthy margins. The high capacity utilization and the ensuing efficiency had a positive impact on our result.

### Indoor telecom & copper networks

Turnover in this sub-segment fell by 4.0%, largely due to a continued decline in investments in passive components for copper networks and a continued shift in the priority to invest in optical fibre networks. The margin improved on the back of an improved product mix.

## Telecom Solutions



### FIBRE NETWORK SYSTEMS

optical fibre, optical fibre cables, connectivity systems and components, active peripheral

TURNOVER SHARE

7.4%

### INDOOR TELECOM & COPPER NETWORKS

home networking systems, broadband connectivity, IPTV software solutions, copper cable, connectivity systems and components, active peripherals

TURNOVER SHARE

5.2%

### KEY FIGURES TELECOM SOLUTIONS

(in € millions, unless otherwise stated)

	2016	2015	Change in %
Turnover	168.5	166.1	+1.4%
EBITA	17.9	15.8	+13.3%
ROS	10.6%	9.5%	

## BUILDING SOLUTIONS



Turnover within the Building Solutions segment fell by 1.2% to € 574.9 million. However, the segment booked organic growth of 1.5%. The divestment of Parking & Protection had a negative impact of 1.0% on turnover. Acquisitions had a positive impact on growth of 0.4%. Exchange rate effects had a negative impact of 0.9%. Lower raw materials prices also had a negative impact of 1.2% on turnover. A reluctance to invest resulted in a decline in turnover in China and Poland. In the fourth quarter of 2016 Building Solutions recorded an organic turnover increase of 4.5%, mainly driven by the sub-segment vision & security systems.

EBITA came in 3.5% lower at € 62.4 million. The start-up and development costs, largely for subsea cable systems, airfield ground lighting systems and the new machine vision portfolio, had a negative impact on the results. ROS fell to 10.9% in 2016, from 11.1% in 2015.

### Vision & security systems

Organic turnover growth in this sub-segment was 1.8%. TKH recorded a strong organic growth in the vertical growth market for parking technology. The order book stood at a record high ultimo 2016. In the Machine Vision vertical growth market, we realized a number of significant milestones in the development of the 2D and 3D portfolio. The breakthrough in our positioning with a number of large manufacturers of consumer electronics had a positive impact on the turnover as of the fourth quarter of 2016. Organic turnover growth in the sub-segment vision & security systems in the fourth quarter came in

at 7.3%, mainly from the vertical growth markets Machine Vision and Parking. We increased R&D spending to further extend the lead we have in the field of our technology and to realize our growth objectives.

### Connectivity systems

Organic turnover growth in this sub-segment amounted to 0.9%. Market volume was lower due to a reduction in the number of large-scale projects in the construction and infra sector. Turnover in energy and data cable systems increased. Turnover in the vertical growth market Marine & Offshore declined as a result of the reluctance to invest in the oil and gas sector, which also affected the ship building industry. The higher order book end of 2016 on the back of growth in market share we realized and the focus on the offshore wind industry provides a good perspective for growth. The start-up and development costs for the launch of a new plant for subsea cable systems, as well as the airfield ground lighting systems and associated CEDD technology, had a negative impact on our result. Serial production of subsea cable will commence in the second quarter of 2017. The roll-out of the CEDD technology is scheduled in 2018.

### KEY FIGURES BUILDING SOLUTIONS

(in € millions, unless otherwise stated)

	2016	2015	Change in %
Turnover	574.9	581.6	-1.2%
EBITA	62.4	64.6	-3.5%
ROS	10.9%	11.1%	

## Building Solutions



### VISION & SECURITY SYSTEMS

vision technology, systems for CCTV, video/audio analysis and detection, intercom, access control and registration, central control room integration, care systems

TURNOVER SHARE **26.3%**

### CONNECTIVITY SYSTEMS

specialty cable (systems) for shipping, rail, infrastructure, wind energy, as well as installation and energy cable for niche markets, structured cabling systems and connectivity systems for wireless energy and data distribution

TURNOVER SHARE **16.6%**

## INDUSTRIAL SOLUTIONS



Turnover in the Industrial Solutions segment fell by 4.8% to € 597.6 million. Exchange rate effects had a negative impact of 0.1% on turnover. The on average lower raw materials prices led to a 1.0% drop in turnover. Turnover declined organically by 3.7%. The turnover decline was entirely due to the sub-segment manufacturing systems and was related to the previously communicated reduced order intake due to reluctance to invest in China. Turnover and order intake recovered in the fourth quarter. Although order intake in China remains low, the order intake from the top five tire manufacturers increased in the fourth quarter.

EBITA declined by 6.3% across the year, but was up 37.3% in the fourth quarter when compared to the same period of 2015. Effective cost management, improved efficiency and more in-house products meant we were able to limit the decline in ROS. ROS came in at 13.3% in 2016 (2015: 13.5%).

### Connectivity systems

Organic turnover growth was 6.2% in this sub-segment. This turnover growth was realized in the medical and robot industries. The investments in R&D, which enable TKH to come up with the most effective response to the trend towards miniaturization and increase the life of cable systems for advanced production systems, are clearly paying off, enabling TKH to capture new market positions. In addition, TKH benefited from a strong increase in demand for robot systems.

### Manufacturing systems

This sub-segment saw an organic turnover decline of 9.7%. This was due to the lower order intake and the effect of a relatively large proportion of engineering activities prior to production which were the result of the newly developed technology and a further breakthrough among the top five tire manufacturers. We continued to increase production capacity towards the second half of the year to meet the expected rise in production levels. Turnover recovered in the fourth quarter, with growth of 8.1% compared to the same period of 2015. Lower production volumes in the first half of the year had a negative impact on results.

The reluctance to invest in China is still having a clear impact on the order intake. However, order intake in the fourth quarter did increase to € 89 million on the back of projects previously announced in the tire manufacturing industry outside Asia, plus an increase in order intake among the top five tire manufacturers. The cumulative order intake in 2016 amounted to € 281 million. The order book was well filled end of 2016 and a large number of projects for investments in the tire building industry have already been announced. We therefore expect capacity utilization to be high in the coming quarters. There is considerable market interest in the MILEXX, the new generation of systems for truck tire building. In addition, we booked solid progress with the UNIXX project. We will build a prototype in the course of 2017 and we expect to deliver the prototype to a launching customer in 2018. The start-up of the operations in Poland during 2016 went well and completion of the construction of the new plant for tire building systems in Poland is scheduled for 2017.

### KEY FIGURES INDUSTRIAL SOLUTIONS

(in € millions, unless otherwise stated)

	2016	2015	Change in %
Turnover	597.6	627.4	-4.8%
EBITA	79.5	84.8	-6.3%
ROS	13.3%	13.5%	

## Industrial Solutions



### CONNECTIVITY SYSTEMS

specialty cable systems and modules for the medical, robot, automotive and machine building industries

TURNOVER SHARE **18.3%**

### MANUFACTURING SYSTEMS

advanced manufacturing systems for the production of car and truck tires, can washers, test equipment, product handling systems for the medical industry, machine operating system

TURNOVER SHARE **26.2%**



# DIVIDEND POLICY AND DIVIDEND PROPOSAL

## Dividend policy

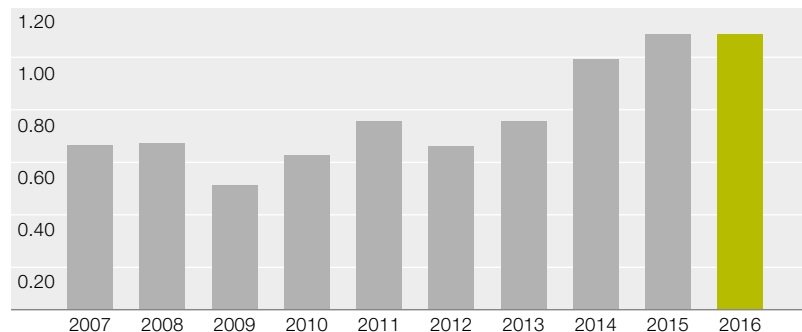
TKH aims for an attractive return for its shareholders, which is also reflected in an appropriate dividend policy. Healthy balance sheet ratios are very important to the continuity of the company. In determining the distributable dividend, TKH takes into account the amount of profit the company needs to retain to carry out its medium- to long-term plans, while maintaining solvency of at least 35%. Based on the growth targets for the coming years, TKH will aim for a pay-out of between 40% and 70%.

## Dividend proposal

At the Annual General Meeting to be held on 3 May 2017, TKH will propose the payment of a dividend of € 1.10 per (depository receipt of a) share (2015: € 1.10). Based on the number of outstanding shares at year-end 2016, this amounts to a pay-out ratio of 49.2% of the net profit before amortization and one-off income and expenses attributable to shareholders and 53.1% of the net profit. TKH will propose the payment of a cash dividend to be charged to the reserves. The dividend will be payable on 10 May 2017.

## DIVIDEND

in €



## New location for the production of subsea cable systems

To respond to the demand for cables for wind farms, the TKF factory in Lochem (the Netherlands) was recently equipped with a complete new set of machines and test facilities for the production of subsea cables. According to a ground-breaking process, the cable cores are finished with an aluminium sheath that results in exceptional electromagnetic screening. The individual cores are tested in a Faraday Cage. Once the individual cores have been wound together on one of Europe's largest stranding machines, a layer of filler and a sheath are applied, followed by the application of a woven steel protective sheath around the cable (the so-called armouring process). Finally, the cable is wrapped in a plastic outer sheath. Following assembly, the cable is again electrically tested. The factory has been designed in such a way that TKF is capable of supplying cables as a single unit, in lengths of more than 20 km. The completed cables are transported to seaports on board of a TKF barge, equipped with an ingenious cable laying installation, designed in-house at TKF.





# ACQUISITIONS, INVESTMENTS AND DIVESTMENTS

In the year under review, the focus was mainly on organic growth and optimally integrating the businesses already acquired into the TKH organization. The priorities being to foster cooperation and combine strengths in the core technologies into total solutions, in order to target the vertical growth markets. This integration is progressing well with visible results.

In July 2016, TKH finalizes the acquisition of the Airfield Ground Lighting ('AGL') activities from HELLA KGaA Hueck & Co. ('HELLA') in Germany. The activities comprises a market AGL portfolio based on innovative LED technology. TKH and HELLA have already been successfully cooperating in the development and design of the CEDD (Contactless Energy & Data Distribution) technology of TKH, whereby the lighting fixtures of HELLA are part of the solution. TKH has taken over the operating site in Nykøbing Falster (Denmark) and main assets from HELLA in Lippstadt (Germany), including intellectual property rights for AGL products. The acquisition strengthens the strategic activities of TKH in its vertical growth market Tunnel & Infra. The acquisition comprises an annual turnover of € 7 million.

Because of the focus on core technologies, attention has been paid in the year under review on activities that recognize insufficient connection to TKH's strategy. This has led to the sale of TKH's 51% interest in Parking & Protection BV ('P&P') to Interparking Nederland B.V. in Rotterdam. P&P focuses on the realization, management and operations of parking facilities. For TKH the activities are considered non-core, whereas the focus of TKH is on developing advanced own technologies and offering total systems and total solutions. P&P realized a turnover of € 5.7 million with 31 employees (FTE).

## Investments in tangible non-current assets

In 2016, the net investment in tangible non-current assets totaled € 45.5 million (2015: € 38.5 million). Most important investments were related to the production locations. The investments were mainly related to the sub-segments building connectivity systems, vision & security systems and manufacturing systems. An important part of the investments refers to expansion in building and production capacity. Depreciation on tangible non-current assets totaled € 22.8 million in 2016 (2015: € 22.6 million).

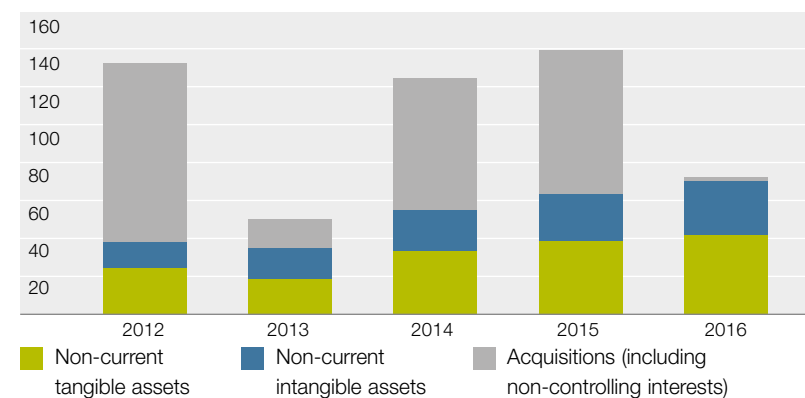
## Investments in intangible non-current assets

In 2016, TKH invested for € 28.9 million in intangible non-current assets (2015: € 25.4 million). The main investments related to the (further) development of our technologies and patent-related costs, for the benefit of our solutions to vertical growth markets. These include among others a new generation of tire building systems, the subsea portfolio and production technology, contactless energy and data distribution (CEDD) technology for airfields, the medicine distribution system, a new security platform, a 'new generation' platform for communication systems as well as 2D and 3D vision.

Spending on acquisitions totaled € 0.8 million (2016: € 49.7 million). Through these acquisitions, intangible non-current assets increased € 1.4 million due to purchase price allocations for acquired brand names, customer lists, intellectual property and goodwill paid (2015: € 52.0 million).

## INVESTMENTS

in million €



# PERSONNEL AND ORGANIZATION

The quality of both the organization and the employees is a decisive factor in the success and growth of the TKH Group. We place high demands on our employees who, in turn, have a clear idea about what is expected of them and how they can play an active part. In addition it is our duty to be a good employer and to motivate our employees as much as possible so that they can carry out their work with enthusiasm. We offer our employees a safe and healthy working environment and give them opportunities for personal development.

TKH has a decentralized organizational structure, based on the Telecom, Building and Industrial Solutions business segments. This structure allows TKH to respond quickly and flexibly to opportunities in the market and customer demands. Short lines of communication, delegated authority and entrepreneurship are typical of the way we work at TKH.

Social and geopolitical developments compel us to be ever more watchful of developments that could impact our company. A key part of that is a risk-management model that helps us to anticipate and effectively deal with uncertainties and threats. But this approach also enables us to recognize and successfully exploit opportunities. Risk management is firmly embedded in our management model. It is characterized by short lines of communication with the Executive Board and is backed up by close monitoring of agreed objectives using a sophisticated KPI dashboard. This provides clear insight into implementation of the agreements. The KPI dashboard is divided into weekly, monthly and quarterly information and presents an overview of the KPIs in a clear and accessible format, over longer periods. An effective reference framework that includes budgetary and historic information, helps us to quickly and adequately detect deviations from the agreements. Trends and deviations in both a positive and negative sense can be discussed at length in order to get to the bottom of developments and to make operational adjustments where necessary. This method of working is stimulated from the top down, so that it pervades all parts of the company. A good system of frequent consultation is in place to ensure that ongoing developments and



## MANAGEMENT BOARD

From left to right

Harm Voortman MSc. - VMI Group

Arne Dehn - TKH Group

Alexander van der Lof MBA, *chairman* - TKH Group

Renate Dieperink MBA - TKH Group

Elling de Lange MBA - TKH Group

Gertjan Sleeking - TKH Group

## STAFF TKH GROUP

### Financial Affairs

Gertjan Sleeking

### Internal Audit

Derk Postma

### Legal Affairs

Maarten Fonkert

### Personnel & Organization

Elling de Lange MBA

Renate Dieperink MBA

### Company Secretary / CSR

Renate Dieperink MBA

detailed reports are discussed with the management of the operating companies on a quarterly basis, or monthly or weekly if necessary, to identify potential risks at an early stage and to be able to take the desired organizational measures. The reports give both quantitative and qualitative information, and are structured along the lines determined by TKH. This provides the stimulus for transparent reporting on both positive and negative matters.

We set up specific programs to generate greater awareness of developments that could negatively impact our company. Over this last year, we have defined cyber crime and other cyber risks as a specific theme and focused on it in various consultation frameworks. To manage such risks adequately, it is essential that awareness on a specific theme becomes firmly anchored throughout the organization.

An important starting point in the management structure of TKH and its operating companies is to ensure a good balance of personalities, know-how and skills in the management of the company in question. Mutual respect is the basis for making properly considered decisions. A good balance between, for instance, the CEO and CFO is of considerable importance in this respect. TKH places high value on the integrity of its employees. This approach is predicated upon openness and transparency. TKH is characterized by an open attitude in the workplace, which is stimulated by the exemplary conduct of the Executive Board and the

boards and managers of the subsidiaries and other key positions. An unambiguous code of conduct, control of working methods and a zero-tolerance policy regarding fundamental themes such as fraud, bribery and corruption are the guarantee that our employees adhere to the right principles and procedures. Conduct impacts the quality and the result of TKH. Due to our open culture, our people feel involved in the company and will correct others if they display undesirable or unacceptable behaviour not in accordance with the standards we aspire to.

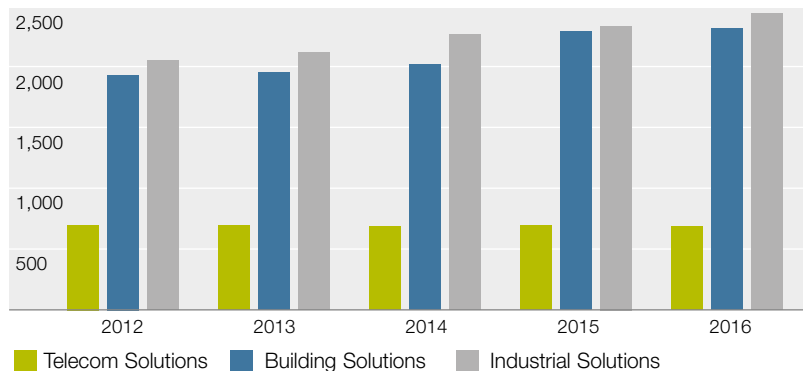
Co-operation and the conduct of the management of the companies is also closely monitored. Employee satisfaction surveys and customer satisfaction surveys are regularly used to assess where there is room for improvement within the companies. The management is encouraged to maintain contact with staff at every level of the company and with its stakeholders. The Executive Board and cluster management each meet and visit the premises of the operating company as frequently as possible, allowing employees to come into contact with the Executive Board by making presentations, holding project meetings or giving guided tours.

Based on its market approach, TKH has defined seven vertical growth markets in which it predicts that above-average growth can be achieved. A member of the Executive Board is responsible for meeting the targets in each vertical market. In a number of vertical growth markets, a manager is appointed who bears ultimate responsibility for the vertical growth market in question and who reports to a member of the Executive Board. In order to enhance cohesion, we have set up clusters of companies with a single responsible manager. This leads to greater efficiency in terms of the organizational management, since the clusters organize joint activities such as product development (R&D), marketing, communications and sales support. Moreover, this arrangement leads to consistency in branding and customer approach, with clear positioning toward the vertical growth markets.

At TKH, a Management Board is formed. This Management Board consists of three members from the Executive Board, as well as the CEO of VMI Group, Harm Voortman, TKH's Finance & Control director, Gertjan Sleeking, and the company secretary, Renate Dieperink, who manages the portfolios for CSR, HR and PR. This also addresses the issue of diversity in the management of the company with regard to the male/female split. The Management Board meets monthly, discussing

## NUMBER OF EMPLOYEES PER SOLUTIONS SEGMENT

in FTEs



developments within the group. The Executive Board is responsible for decisions taken by the Management Board and bears ultimate responsibility for the company as laid down in the articles of association.

In addition, TKH has a Strategic Sounding Board to discuss the execution of TKH's strategy and to review said strategy. The TKH technologies and vertical growth markets are represented in the Strategic Sounding Board. Together with the Management Board, the members of the Strategic Sounding Board constitute an effective forum for the discussion of strategy, possible dilemmas, technological and portfolio developments as well as business development within TKH. This platform also offers the opportunity of getting up-and-coming talent involved at an early stage in strategy development and the execution of strategy, and to explore management development.

### Developing talent

Given the scarcity on labour markets, talent development and management development are gaining an increasingly strategic value. We focus closely on developing, training, attracting, retaining and recruiting talent in our organization. Our aim is to create a clearer picture of the required profiles and competences of new employees on the one hand, and internal promotion and talent development within the organization on the other. Our Management Development program is designed to involve young talent in the developments within TKH and prepare them for the next step in their career. Each year, we offer 25 candidates a one-year Management Development program in collaboration with Nyenrode Business University. Candidates are put forward by the management of our subsidiaries on the basis of pre-determined selection criteria. The Executive Board maintains close contact with the candidates of the MD program, and takes part in various joint sessions. Over the years, this has created a pool of potentials with which we have been able to fill key positions within our group.

In terms of its HR policy, TKH adopts a decentralized approach, in which local management is responsible for implementing policy, within the guidelines established by the group. This allows the subsidiaries the freedom to quickly shift gears under changing circumstances and take the appropriate organizational measures.



Participants MD Program 2015-2016,  
Nyenrode Business University.

### Employee representation

The interests of the employees are promoted at subsidiary level by the local Works Councils, and at TKH Group level by the Central Works Council. These councils maintain employee representation structures under the terms of the Works Council Consultation Act [Wet op de Ondernemingsraden]. During the year under review, the Executive Board and the Central Works Council held good and intensive consultations. Some of the matters elaborated on included results and organizational developments, the strategy and the budget, investments, the TKH annual report and general HR issues. Special themes covered during the reporting year included the acquisition of the airfield ground lighting activities of Hella, appointments and reappointment in the Supervisory Board, as well as the amended committed credit facility. Under the terms of the Central Works Council's (special) right to recommend candidates, the vacancies in the Supervisory Board have been dealt with. Through seminars, the Central Works Council has addressed actual topics affecting the Council and which are covering the participation structure in general. One meeting of the Central Works Council was attended by a delegation from the Supervisory Board. The subjects discussed at this meeting were TKH's strategy and operational matters affecting TKH and its subsidiaries.



## MEMBERS OF THE CENTRAL WORKS COUNCIL

André Bezemer (Cruxin), *chairman*

Gerard Roolvink (TKF), *secretary*

Maurice Fliescher (Intronics)

Han ten Have (VMI)

Berry Mennink (VMI)

Pepijn Hofman (EKB)

Har Ritzen (Eldra)

Louis Scholten (TKF)

Onno Verkerk (Siquira)

To strengthen ties among the various Works Councils and other staff representative bodies in the Dutch subsidiaries, TKH organizes an annual Works Council Day for all members of the Works Council and personnel representatives. This day is always organized at the premises of one of the subsidiaries. The Executive Board holds a presentation on developments within TKH. In addition, current topics are dealt with and the management of the subsidiary at whose premises the day is being held gives a presentation about the company, followed by a guided tour. Moreover, time is set aside for informal discussion, not least so that knowledge can be shared. In the reporting year, Eldra in Ittervoort hosted the annual Working Counsel day. A delegation from the Supervisory Board also attended the event. TKH attaches great importance to an open dialogue and its discussions with the various works councils and the Central Works Council. We believe that adopting an active approach to employee representation helps us to stay alert.



# CORPORATE SOCIAL RESPONSIBILITY

As a matter of strategic priority, corporate social responsibility (CSR) is firmly anchored in our day-to-day operations, and CSR initiatives are more and more being integrated into our organization. Our CSR policy is future-focused and provides a framework for our short- and medium-term plans. This makes the organization aware of the impact of our day-to-day operations on society. What we are looking for is a good balance between short-term and medium-term profits, without losing sight of our business interests. We report in line with the international guidelines of Global Reporting Initiatives (GRI G4.0) and endorse the OECD guidelines for corporate responsibility. We apply the IIRC (International Integrated Reporting Council) value creation model to show how value is created within TKH. The Executive Board is intensively involved in CSR programs and initiatives. Interactions with our subsidiaries ensure that 'best practices' are shared, so that we can continue to tighten and improve our performance.

## CSR mission

As an international technology company, TKH wants to contribute to a sustainable society. This means that every business decision is made not only in the light of its effect on profitability but also its possible consequences for the people involved in our organization, and its impact on the environment and our reputation.

TKH is constantly striving to ensure that its technological solutions and corresponding services meet current demands and needs without jeopardizing future needs and facilities. For TKH, focusing on defined CSR issues is an important way of integrating sustainability in our day-to-day business operations. TKH is present in an increasing number of value chains as a purchaser, producer, supplier or partner. In all of these roles, TKH tries to guarantee uniformity with regard to its CSR principles.

## CSR strategy

TKH's general strategy is reflected in a specific sustainability policy. In order to best guarantee our social and environmental responsibility, we focus on topics that are material to us and our stakeholders, on which our impact is material and on which we can also exercise influence.

We take account of the impact of our activities and business operations in four domains: People, Planet, Profit and Positioning.

- People: the social aspect of the business - how the business affects people.
- Planet: concern for the environment and climate - the impact of the business on the natural environment.
- Profit: the economic side of business - a condition for the continuity of the company's business.
- Positioning: the place and distinctiveness of the company in the world in which it operates - safeguarding our reputation.

We have set objectives based on clear KPIs, which are closely monitored.

## Our added value

In our business practices, we focus on the external and internal environmental factors and analyze the trends in these. We make an estimate of the relevant opportunities and threats and see how we can provide added value for our stakeholders and society in general. The overview hereafter shows our added value in CSR for each trend and how we have organized this internally based on defined objectives.

## PEOPLE

the social aspect of the business - how the business affects people.

## PLANET

concern for the environment and climate - the impact of the business on the natural environment.

## PROFIT

the economic side of business - a condition for the continuity of the company's business.

## POSITIONING

the place and distinctiveness of the company in the world in which it operates - safeguarding our reputation.

## TRENDS IN CSR

TRENDS	THEME	CSR SUB-AREA	OUR ADDED VALUE	OPPORTUNITIES	OBJECTIVE	POSSIBLE RISKS
<b>Economic / financial</b>	Positive growth prospects in the global economy.	Profit	Ambitious but realistic financial targets with a sound risk management system.	A clear strategy with firm objectives. In investments, returns and possible risks are weighed carefully against each other.	ROS: 11-12%. ROCE: 20-22%. Net Debt / EBITDA: < 2.0.	Worldwide economic and geopolitical developments.
	Increased investments in sustainable technology and modern infrastructure.	Positioning	Focus on four core technologies and seven vertical growth markets.	Our distinctive core technologies in conjunction with the chosen vertical growth markets are a major driver in exploiting opportunities in market niches in which investments are a high priority.	Expected growth in the vertical growth markets for the next 3-5 years from € 300 - € 500 million.	Dependency on government measures in some markets.
	Globalization.	Positioning	Knowledge of the operation and of the markets in which we operate.	Exploit market opportunities by means of collaboration and synergy in the group. Advantage of scale.	An average of 1 - 3 acquisitions per year with turnover of € 10 - € 50 million each. Acquisitions correspond to our core technologies and their corresponding vertical growth markets.	Limited market share and brand awareness in a number of sub-segments. Unsuccessful integration of acquired companies.
<b>In the market</b>	Companies must excel in their knowledge of specific customer needs and differentiate themselves with innovative product designs and services.	Positioning	High customer satisfaction.	By obtaining insight into the level of satisfaction and the expectations of our customers, we can offer tailor-made total solutions that maintain and improve the competitive position on both sides.	Customer satisfaction survey with an average score above the benchmark.	Reputational damage as do not sufficiently satisfy customers' expectations, resulting in underperformance of result and turnover development.
	Globalization in the value chain.	Positioning	Active chain approach.	Co-operation in the value chain can stimulate innovations and increase engagement of suppliers and customers. Better and quicker response to trends. Sustainability aspects are guaranteed.	Active participation in at least three chain initiatives. Percentage of signed codes of supply by suppliers with a purchasing volume > € 1 million. Site visits in the year subsequent to signing a code of supply.	Dependency of customers and suppliers Non-compliance with legislation and regulations by chain partners. Image or reputational damage of chain partners.
	Product life-cycles are becoming increasingly shorter, which also calls for faster and better innovation in order to retain and improve our competitive position.	Positioning	Avoiding customer complaints.	The quality of our products and services is a determining factor for the success of our company. We wish to avoid customer dissatisfaction.	Total number of complaints resolved within five working days > 60%.	Reputational damage because our products do not satisfy customers' expectations, resulting in underperformance of result and turnover development.
<b>Technological developments</b>	Internet of things / Industry 4.0 / emergence of vision technology and increasing use of robots.	Positioning	A balanced and sustainable product portfolio.	Our core technologies play a major role in dealing with sustainability issues such as quality of life, energy saving, efficiency in production processes and with regard to the secure environment.	To have at least 15% of turnover generated by innovations introduced in the two previous years.	Speed of technological developments and competitors' new technologies offering more perspectives than TKH technology. Risks of cyber crime.
	Demand for more efficient and reliable production processes.	Positioning	Four core technologies that in conjunction offer total solutions guaranteeing efficiency and safety. Vision technology plays a decisive role in this.	Core technologies that respond to the demand for greater efficiency and safety.	Focus on investments and acquisitions of companies that have a direct relationship with the four core technologies.	Being unable to introduce sufficient (sustainable) innovations.

## TRENDS IN CSR

TRENDS	THEME	CSR SUB-AREA	OUR ADDED VALUE	OPPORTUNITIES	OBJECTIVE	POSSIBLE RISKS
<b>Social and human</b>	Due to aging, important know-how is flowing out of companies. The core of the work is increasingly complex and knowledge intensive. This imposes immediate demands on the working and thinking level of the employees.	People	Interesting employer with a focus on entrepreneurship and development opportunities, as well as good employment practices, ethics and integrity.	We want to be a good employer for current and future employees and give them development opportunities.	At least 16 hours per FTE/year are devoted to education and training. At least 90% of all employees get a performance and assessment interview. An employee satisfaction survey with an average score that at least meets the benchmark.	Shortage of well-qualified staff and the inability to retain qualified staff. Undesirable or unethical behaviour on the part of employees; reputational damage.
	Composition and age structure of the working population is changing.	People	The size and nature of the company creates opportunities for a broad working group.	We want to be an attractive employer offering equal opportunities for everyone and in an environment in which knowledge, confidence and diversity is appreciated.	Sustainable employability. Attention for people with disabilities or restricted opportunities on the labour market.	No or insufficient match between the wishes and requirements of employer and employees, which may lead to conflicts, increased working pressure and stress.
	Hardening of society.	People	Attach great importance to ethical behavior by its employees. Example behavior at the top.	Norms and values are set down in the TKH code of conduct. A whistleblower procedure enables our employees to report undesirable situations.	All staff members must sign the code of conduct. No violations of the code of conduct.	Reputational damage.
	High demands of working and thinking level due to increasing automation.	People	A clear sick leave policy. Safety on the shop floor.	Reducing sick leave through a proactive programme based on sustainable employability. Offering health checks and encouraging employees to live healthy lives. Trying to prevent all workplace accidents through an active safety programme. Drawing up clear safety instructions and increasing safety awareness.	Absenteeism is at or below the percentage for the sector. Annually reduction of the number of accidents with at least 10%.	Reduced vitality. A reduction in attractiveness as an employer.
	Increasing demand from society for companies to become more socially active.	Positioning	Social engagement.	From the perspective of our social commitment, we support social initiatives in the areas of health, sports and culture.	0.2% - 1.0% of net profit before one-off income and expenses spending to social initiatives.	No direct impact on the cash flow.
<b>Sustainability / natural</b>	Resources are becoming depleted due to the high consumption of raw materials.	Planet	Waste reduction and recycling.	Achieve positive results by handling raw materials economically. Reduce the risk of scarcity of raw materials.	5% waste reduction for the most relevant raw materials compared with production volumes. At least 50% of all waste is recycled.	Important raw materials are unavailable or available in limited quantities. Commodity price volatility.
	The global demand for energy will increase strongly in the coming decades, while the stocks of fossil fuels are becoming scarcer and harder to extract.	Planet	Energy and CO <sub>2</sub> reduction program.	Contributing to climate objectives. Reducing costs by energy savings and efficiency programs.	2020: 5% energy and 2.5% CO <sub>2</sub> reduction (reference year 2015). Average CO <sub>2</sub> norm for new leased cars: < 135 grammes/km. 2020: < 95 grammes/km.	Reputational damage by failing to recognize the impact of our activities on the environment in time. Risk of penalties.
	Technologies play an important role in the approach of sustainability issues, such as in relation to the quality of life, energy saving and safety.	Planet	Efficiency programmes like LEAN/Six Sigma.	Eliminating all wastage from the production process by creating value in it.	Avoiding complaints relating to environmental requirements.	Reputational damage by failing to recognize the impact of our activities on the environment in time.

## TKH in the value chain

One way to achieve a healthy, sustainable business is to co-operate with parties in the value chain. Our objective in this is to enhance knowledge in the value chain in order to develop joint initiatives. Because only by working together is it possible to create added value in the chain as a whole. The way in which -and the degree to which- we influence those initiatives differ, however.

### Input

- We use a range of capital flows to be able to achieve our ambitions. Meetings are taking place with our suppliers of raw materials and intermediate products on the sustainable sourcing of raw materials and possible alternative materials that will make our production processes more sustainable and efficient. We discuss the recycling of waste and residual materials with those same suppliers and with waste collection companies. We expect our suppliers to act sustainably as well and, to guarantee this, we have included our views in the ‘code of supply’.

## VALUE CHAIN TKH GROUP

	INPUT	THROUGHPUT BUSINESS MODEL	OUTPUT MARKETS	OUTCOME END-OF-LIFE
<b>Sustainable activities</b>	<ul style="list-style-type: none"> <li>• Produced.</li> <li>• Intellectual.</li> </ul>	<ul style="list-style-type: none"> <li>• A balanced, sustainable portfolio.</li> <li>• Operational excellence program.</li> <li>• Sustainability in the value chain.</li> </ul>	<ul style="list-style-type: none"> <li>• High ROI.</li> <li>• Improvement in turnover and profit margins.</li> <li>• Sustainable portfolio.</li> <li>• Sustainability in the value chain.</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable, reliable products.</li> <li>• Circular economy.</li> <li>• Full recycling of products.</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Financial.</li> <li>• Human.</li> <li>• Natural.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction of waste and energy.</li> <li>• Re-use of materials.</li> <li>• Input of skills and know-how.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction of material and energy consumption in customer processes.</li> <li>• Efficiency in production processes of customers.</li> </ul>	<ul style="list-style-type: none"> <li>• Energy neutral.</li> <li>• Full recycling of products.</li> </ul>
<b>Social and relationships</b>	<ul style="list-style-type: none"> <li>• Committed suppliers (and sub-contractors).</li> <li>• Financial institutions.</li> </ul>	<ul style="list-style-type: none"> <li>• Committed and satisfied employees.</li> <li>• Research institutes.</li> </ul>	<ul style="list-style-type: none"> <li>• Satisfied customers.</li> </ul>	<ul style="list-style-type: none"> <li>• Satisfied customers and end-users.</li> </ul>
<b>Directives</b>	<ul style="list-style-type: none"> <li>• Code of supply.</li> <li>• REACH - ROHS.</li> <li>• ISO standards.</li> </ul>	<ul style="list-style-type: none"> <li>• Code of conduct.</li> <li>• Corporate Governance Code.</li> <li>• REACH - ROHS.</li> <li>• ISO standards.</li> <li>• OECD guidelines.</li> <li>• CSR performance ladder.</li> </ul>	<ul style="list-style-type: none"> <li>• ATEX.</li> <li>• KEMA/DEKRA.</li> <li>• FIRA.</li> <li>• CO<sub>2</sub> performance ladder.</li> </ul>	<ul style="list-style-type: none"> <li>• ATEX.</li> <li>• KEMA /DEKRA.</li> <li>• CE standard.</li> </ul>

Our employees are our most important asset. They contribute skills and know-how in many fields. Sustainability has an increasingly prominent role to play in this.

### Throughput

- In our business model, we have applied operational management models that have been incorporated in an operational excellence program. In this program, we strive for optimal performance in our operational processes with targeted efficiency effects. This supports our business in the areas of quality and safety. Our production companies work according to the LEAN principle. LEAN is a method of eliminating all wastage from the production process by seeing where value can be added to it in both the production process and actual customer demand. Processes are discussed daily in the operational environment in order to continuously improve them. As a consequence, sustainability is increasingly integrated within the operational environment. Where possible, procurement needs in the group are being combined to exploit economies of scale. Knowledge sharing and synergy within our subsidiaries lead to a balanced and sustainable portfolio. The core technologies are merged into innovative total solutions in order to meet customer demand.

### Output

- By adding specific application know-how, we are specialists in our defined vertical growth markets and we can offer customized solutions. By using basic technology platforms we can offer our customers the best possible solutions in terms of cost price and efficiency. And we pay attention to social issues, such as scarcity of raw materials and energy wastage, and develop programs together with our customers in an effort to address these issues.

### Outcome

- Materials and fossil fuels will only become scarcer. Alternative and more sustainable materials are being used with increasing frequency, and the composition of the products, systems and solutions form the basis for optimum recycling and returning any waste to the original source. Not just throwing away used materials, components and products, but returning them to the right value chains will create a sustainable business model.



## Stakeholder meetings and interaction

TKH conducts frequent consultations with stakeholders who have various interests in our company. Our assumption is that we want to create value for our stakeholders. By entering into dialogue with them, we are attempting to fine-tune our strategy and operations where possible to meet their wishes and requirements. When holding stakeholder dialogues, we work together with members of management of our operating companies, business line managers, account managers and HR. The Executive Board and Management Board are frequently involved in these dialogues. Information on who our shareholders are and the various means of communication we use can be found in the 'Our stakeholders' section.

Various stakeholder dialogues were held during the year under review. These talks focus on one of the following topics:

- Business development.
- Good employment practices.
- Investor Relations.
- Value chain initiatives.
- Review of current sustainability topics and policy.

### Business development

Sustainability plays an ever greater role in the dialogue with customers. In addition to the fact that we are asked to share information on our performance in relation to sustainability with them, our customers also ask us to contribute to answering their sustainability questions. We deploy our knowledge of the market, our technologies and wholesale solutions to make a contribution to the value chain. And we talk to our customers on our own initiative. This allows them to tell us about what they would like to see, and what they need in relation to sustainability, which in turn allows us to respond swiftly and alertly. In the year under review, this has led to investments in production and in adaptations to products. The composition of, for example, cable sheaths has been modified, and production lines have been fitted with our 3D camera-inspection system to detect imperfections in cable sheaths at an early stage. With the technologies we use, we can meet customer demands for increased efficiency and product safety. We conducted talks with strategic suppliers regarding our code of supply. We discussed working conditions and on-site safety as well as the possible impact of the supplier's activities



on the environment. The choice of a supplier will be increasingly influenced by the question as to whether it contributes to achieving our sustainability and innovation objectives.

### Good employment practices

- Our employees are our most important asset. Short lines of communication and entrepreneurship are typical of the way people work at TKH. Responsibilities are embedded as deep in the organization as possible to stimulate local entrepreneurship. Entrepreneurship must be clearly defined and is monitored closely via an extensive dashboard. We use appropriate consultation frameworks to discuss current developments with the management of the subsidiaries at least once per quarter.
- We use webinars to share know-how with our employees on current topics. This allows us to reach a large group of employees both efficiently and effectively. The substantial benefit of this is, moreover, that feedback on specific issues can be given immediately, and that people can learn from each other's questions.
- Personal learning and development plans are assessed at meetings between manager and employee every year, as part of the performance management process.
- Managers in the organization have regular meetings with local works councils. There is frequent consultation with the Central Works Council at TKH level.



- Via the TKH intranet we can reach a large group of employees. In addition to provide information from TKH to the subsidiaries, the intranet is configured dynamically to make it possible that our subsidiaries can publish news items and other information themselves. This enables an interactive exchange of information. Several times per year, we publish the in-house TKH 'Inspire' magazine, which includes commercial information and information on developments within the organization. 'Inspire' is circulated among all TKH employees.

### Investor Relations

As a stock listed company, TKH keeps its shareholders and holders of depositary receipts of shares, investors and the market in general, updated on developments and its financial developments. We publish in this extent press releases based on quarterly, half-year and annual figures. In addition to maintaining relations with existing shareholders and holders of depositary receipts of shares, we believe it is important to bring TKH to the attention of potential investors. In the past year we took the following opportunities to communicate our message in the context of investor relations.

- Road shows and conferences.

The CEO and CFO took part in road shows and conferences in which conversations were held with investors (both current and potential), holders of depositary receipts of shares and shareholders. Such conversations are mainly held at a TKH site, where they are combined

with a guided tour in a production facility, or in the TKH Experience Center in Amsterdam. This creates a better understanding of our technologies, what we do and of our strategy.

- Analyst meetings.

Analyst meetings are held when the annual and half-year figures are published. This event is always held at the TKH Experience Center in Amsterdam. Following the publication of trading updates, the Executive Board is available to answer questions by telephone. In all discussions, the applicable restrictions are observed and we take care that all relevant information will be shared to the same extent and at the same time.

- A TKH shareholder day was organized in September. Various investor days, in collaboration with banks, were also organized during the year under review in the TKH Experience Center in Amsterdam. Besides a general presentation, the program also includes a guided tour.
- TKH organized a Capital Markets Day in November, which was held at subsidiary VMI Holland BV in Epe (the Netherlands). The day served to give investors more insight into TKH, the vertical growth markets Industrial Machine Vision and Tire Building Industry, and TKH's positioning and technologies in relation to these markets. Following presentations from the local management of Allied Vision, LMI Technologies and VMI Group respectively, there were demonstrations of applications in vision technology, followed by a guided tour at VMI, where an insight into the applied technologies in tire building systems could be acquired.
- Investors in TKH shares increasingly ask us to show how we have structured our sustainability policy. We pursue this dialogue through one-to-one talks at road shows or conferences.

### Value chain initiatives

- In the year under review, TKH took a proactive part in sector initiatives focusing on the circular economy and value chain innovation programs. We are one of the participants in the 'Plastic and rubber in the underground infrastructure' value chain innovation program. This innovation program is part of 'Nederland Circulair', a program promoting a circular economy in the Netherlands, in which various social organizations are working on seven topics to accelerate circular business models in the Dutch economy. In this respect, we have committed ourselves to the ambition of 100%-circular use of materials

in the underground infrastructure before 2040. By continuing to work with value chain partners, we will achieve the innovation that is needed to realize this ambition.

- As a supplier of cable systems, we are a consulting partner for Dutch infrastructure companies that are focusing on the 'Fair Infra' mission statement. The aim is to accelerate the transition to sustainable energy.
- TKH is a participant in steering committees and working parties of trade associations, such as NEDEK (the association of Dutch cable manufacturers), Uneto/VNI (electro technical fitters and retailers) and FEDET (electro technical and mechanical engineering supplies). As far as the machine vision activities are concerned we are, for example, a member of EMVA (European Machine Vision Association) and AIA (American Machine Vision Association). A trade association, in our view, is a platform from which to follow developments in technology, legislation and the market. A trade association makes it possible to make contact with agencies and training institutions, which helps forge connections with the business community.
- TKH has joined the FME, the Netherlands' biggest employers' organization in the technology industry. In addition, managers are involved in regional industrial platforms and occupy positions in social network groups, such as international student network groups. The aim of this is to promote jobs and improve TKH's economic position in the region.
- In the past year, we joined the '99vantwente' network. This network focuses on improving access to employment for partially occupationally disabled or people with restricted opportunities on the labour market in the region. Participating employers work together on shared themes and help each other in achieving ambitions.

### Review of current sustainability topics and policy

- During the year under review a stakeholder dialogue was organized in the Experience Center. Those present included suppliers, customers, banks, analysts, NGOs, employees and members of the Central Works Council. The day was supervised by an external expert. Three current topics were addressed during this dialogue, these being the impact of climate change, circular economy and transparency/integrated reporting.
  - a. The impact of climate change in relation to TKH operations and activities. Stakeholders suggested that TKH should view the environmental and climate targets as a long-term goal. This could

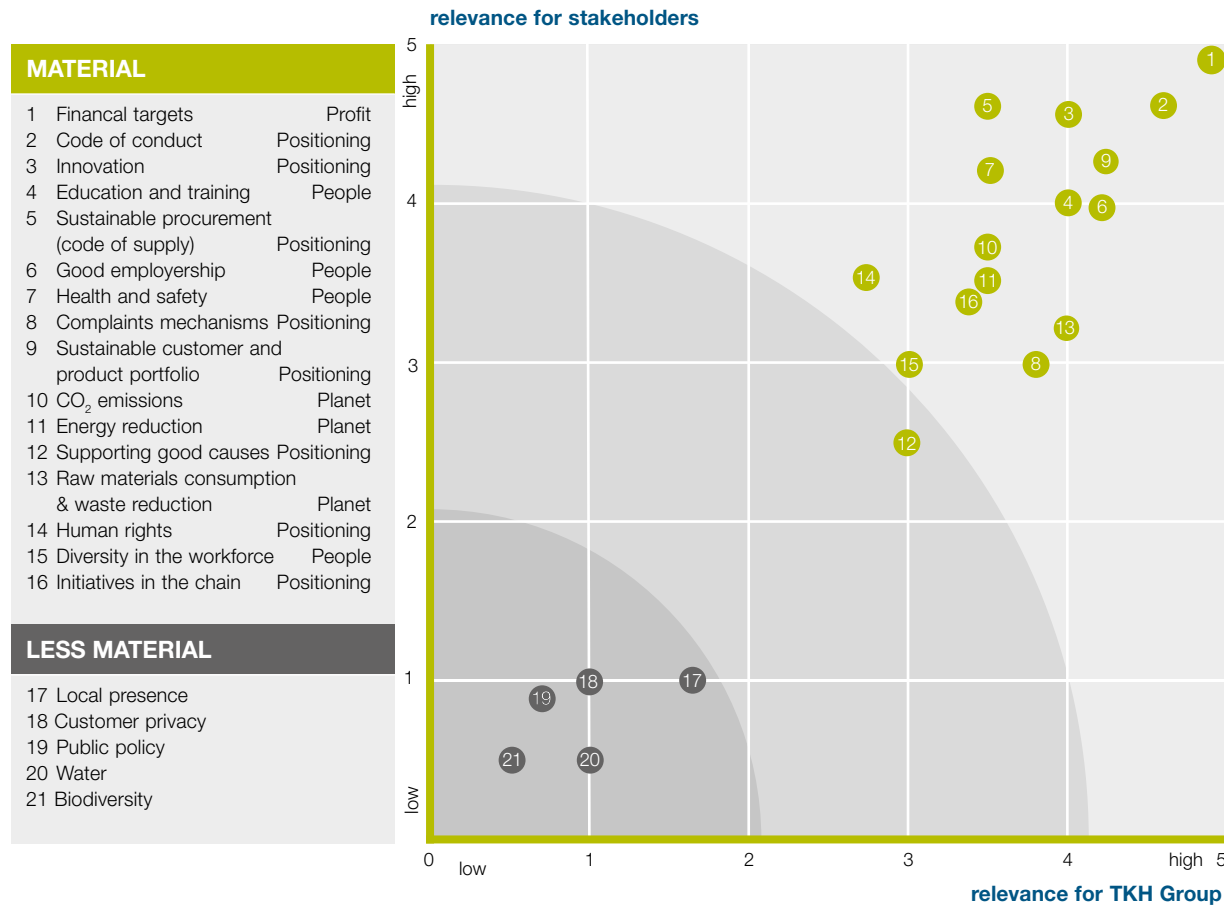
mean a short-term reduction in profits for the sake of better performance in the long run. The stakeholders asked themselves whether the agreed energy reduction targets were ambitious enough. More to the point, a long-term target must be combined with an actual roadmap of how to get there.

- b. Circular Economy. Stakeholders argued that TKH has the opportunity to be one of the pioneers in the field of the circular economy. Given our central position in the value chain, we are ideally positioned to become a pioneer. The stakeholders are of the opinion that TKH must have a specific circular economy ambition in place, although the pragmatic character of TKH must be taken into account by linking short-term objectives to the long-term ambition. The common opinion was to first properly define circular economy and to make it tangible, before committing to a firm ambition.
- c. Transparency and integrated reporting. Stakeholders are proponents of demonstrating the effect of the CSR policy with more quantitative information. The value-creation model can be more precisely tweaked to the TKH situation. The stakeholders acknowledged the material topics as presented in the materiality matrix. They would like to see this combined with the acknowledgement of dilemmas TKH is facing. Moreover, the stakeholders were expecting TKH to show how its activities were linked to the sustainable development goals (SDGs) in its reporting.

The dialogue gave us some useful food for thought. The results indicate a clear direction for how the topics dealt with can be further developed within TKH, supported by clear priorities. The challenge we still face is to keep our business operations in balance with the interests of our stakeholders. We found the stakeholders' willingness to collaborate in such dialogues a refreshingly positive experience. In our view, this underlines the maturity of this subject.

- In 2016, stakeholder dialogues were also held regarding the CSR performance ladder. The outcomes of these talks were also included in verifying the materiality matrix and are explained further in the relevant section.

## MATERIALITY MATRIX TKH



### Dilemmas

At the roll-out of our CSR strategy and on hitting our targets we come up against dilemmas. In order to confront these issues, we embrace them and try to reach a consensus or come to a solution that is acceptable in the long term. In some situations, however, it is impossible to find suitable solutions at short notice. Below is a list of dilemmas we have encountered in the past year, on which our attention is still focused.

- Demand for sustainable action in our operations and sustainable solutions is on the rise. In certain markets, however, the price factor is still decisive, and there may be implicit reasons for reducing CSR efforts. In such situations, it is a challenge to convince the stakeholder of the

importance of sustainability which, as a result, exceeds the pricing margin.

- Reducing our energy consumption and CO<sub>2</sub> emissions calls for thorough co-ordination of internal production, which in turn is dictated by current demand. In the past years our management focus was on energy and CO<sub>2</sub> reduction, which has brought many savings plans successfully. Because of this, it is becoming increasingly difficult to continue to satisfy reduction targets. In addition, in the year under review investments have been made in manufacturing facilities, which has led to a rise in energy consumption, but which cannot yet be recouped by the output created by these investments. Among other things, this applies to the new factory for sub-sea cable systems in Lochem (the Netherlands) and the new site for VMI tire building systems in Leszno (Poland). The planned roll-out of new business associated is expected to make a contribution to the production values from mid 2017.
- Customers and investors increasingly ask us to pass information separately, through platforms such as CDP, Fira and Vigeo. In light of price-sensitive and competition-sensitive information it is not always possible to honour all requests. For that reason, we take a selective approach to divulging information through third-party platforms and make conscious choices on the information that we release.
- Our subsidiaries sometimes have difficulty with the fact that a different attitude is required for negotiations with strategic suppliers as sustainability criteria also form part of those negotiations, and with the fact that they have to resort to different suppliers if the discrepancies between our standpoints in this regard are too wide apart. We support our buyers in this respect, but our point of view remains that we do not make concessions to the criteria stated in our 'code of supply'.

### Materiality matrix

The materiality matrix is composed of issues that are material for TKH and our stakeholders. The horizontal axis comprises a scale of material issues important to the TKH organization. The vertical axis ranks the subjects that our stakeholders believe are important. The influence or relevance of the issue is in direct proportion to the magnitude of its materiality. By assigning a certain value to the issues, it is easier to see which issues are the most relevant.



The materiality matrix drawn up in 2014 covers a period of several years. In this way we aim to achieve consistency in our policy. In the annual assessment, we look at whether or not the materiality matrix needs adjustment in terms of prioritizing specific issues or, indeed, allowing them to slide down the list. Topics that are deemed less relevant, or even of no relevance at all, by our stakeholders and also by TKH will not be explained further in the annual report. These are subjects classified as 'less material'.

In the identification of material aspects and the annual review of these, we consult the following sources:

- TKH strategy.
- TKH risk-management program.
- General governance assumptions (Dutch Corporate Governance Code).
- Outcomes of the stakeholder dialogues.
- Topics suggested by civil society organizations such as VBDO, VEB, Eumedion etc.
- Global Reporting Initiative (GRI) guidelines.
- Sustainability rating agencies such as CDP, Vigeo etc.
- International guidelines such as those issued by the OECD, ILO and SDG.
- Peer reporting.
- Media analyses.

The stakeholder dialogue revealed that there was a consensus on the subjects covered in the matrix and the priority given to them. No changes were made to the composition and prioritization of the subjects in the materiality matrix. Internally, we focus on specific topics in the matrix in the usual way. The choice of a specific topic is often prompted by current events.



### CSR objectives

The materiality matrix is helpful for identifying the most material issues for sustainable business that can then be used to define objectives. We have defined specific objectives for those issues defined as 'high-impact with high relevance' in the materiality matrix. The GRI 4.0 guidelines, among others, were used to define the KPIs. We monitor our objectives by means of a dashboard in our reporting system and assess the results during the year using the PDCA cycle. This makes our CSR dashboard a dynamic model that allows us to make adjustments as and when necessary. CSR is also an aspect of the annual budget preparations; the management can thus be questioned throughout the year on its performance in terms of CSR.

The following overview shows the objectives with an explanation of why they are important to TKH, and where our ambition lies. We also list the figures achieved in the past two years.

## CSR OBJECTIVES 2016

	THEME	KPIS	OBJECTIVE	SCOPE	RESULT 2016 COMPARED WITH TARGET		RESULT 2015	MATRIX NO.	
PEOPLE	Development opportunities.	% of employees that get a performance and assessment interview.	At least 90% of all employees.	TKH-wide.	80%.	●	81%.	6	
		Number of hours devoted to education and training per FTE.	At least 16 hours per year per FTE.	TKH-wide.	21 hours per FTE.	●	17 hours per FTE.	4	
	Health & Safety.	Number of accidents with at least 1 day absence.	Reduction of the number of accidents with at least 10% annually.	TKH-wide.	99 accidents (+3%).	●	96 accidents.	7	
		Total sickness leave.	Below the percentage for the sector (3.9%).	TKH-wide.	2.98%.	●	2.91%.	7	
	Good employership.	Employee satisfaction survey.	At least corresponds to benchmark (7.0).	TKH-wide.	7.2.	●	7.3.	6	
		Number of employees who have signed the TKH code of conduct.	100%.	TKH-wide.	97%.	●	96%.	2	
		Number of breaches of the code of conduct.	0 breaches.	TKH-wide.	1.	●	1.	2	
	Diversity in the workforce.	Number of people in workforce with a disability or with restricted opportunities on the labour market.	At least maintain current number.	TKH-wide.	105 employees.	●	33 employees.	15	
	PLANET	Reduction of energy consumption and emissions.	Total energy consumption in Kwh / turnover.	5% energy reduction in 2020 with 2015 as reference year.	TKH-wide with a distinction according to size.	+4.1%.	n.a.	Reference year.	11
			Carbon footprint (CO <sub>2</sub> emissions).	2.5% CO <sub>2</sub> reduction in 2020 with 2015 as reference year.	TKH-wide with a distinction according to size.	+3.8%.	n.a.	Reference year.	10
Vehicle fleet: CO <sub>2</sub> norm, expressed in grams/km.			Average CO <sub>2</sub> norm of new leased cars: max. 135 grams/km. In 2020: max. 95 grams/km.	Dutch companies.	Existing 101.8 grams/km. New: 89.5 grams/km.	●	Existing: 108.7 grams/km. New: 88.7 grams/km.	10	
Reducing raw materials consumption and waste.		Total amount of waste from the most relevant raw materials compared with production volumes.	5% reduction in waste per year from the most relevant raw materials.	Production companies.	-15.0%.	●	-7.3%.	13	
		Recycling percentage for most relevant raw materials.	At least 50%.	Production companies.	71.9%.	●	57.4%.	13	
PROFIT		Continuity and shareholders value creation.	Net debt/EBITDA (debt leverage ratio).	<2.0.	TKH consolidated.	1.0.	●	0.9.	1
	Return On Sales (ROS).		11-12%.	TKH-wide.	10.9%.	●	11.0%.	1	
	Return On Capital Employed (ROCE).		20-22%.	TKH-wide.	20.1%.	●	22.1%.	1	
	Solvency.		>35%.	TKH consolidated.	46.7%.	●	42.4%.	1	

● Objectives achieved ● Objectives not achieved but improvements possible in the short term.

## CSR OBJECTIVES 2016

	THEME	KPIS	OBJECTIVE	SCOPE	RESULT 2016 COMPARED WITH TARGET	RESULT 2015	MATRIX NO.	
POSITIONING	Customer Intimacy.	Gaining insight into the satisfaction and expectations of our customers through customer satisfaction surveys.	Customer satisfaction surveys with an average score above the benchmark.	TKH-wide.	8.0.		8.0.	9
	Complaints settlement.	% of total number of complaints settled within 5 working days.	At least 60%.	TKH-wide with distinction to activities.	70.1%.		67.8%.	8
		Total number of complaints received per year relating to environmental requirements.	0 complaints.	TKH-wide.	3.		0.	8
	Socially responsible procurement.	% of 'code of supply' signed by suppliers with a purchasing volume above €1 million.	100% in 2017.	All companies that satisfy the criteria.	77%.	n.a.	72%.	5
		% of site visits to suppliers who have signed a 'code of supply'.	100% in the year following the signing of the 'code of supply'.	All companies that satisfy the criteria.	75%.	n.a.	n.v.t.	5
	Social engagement.	Amount of sponsoring per year as a percentage of net profits before one-off income and expenses.	0.2% - 1.0% of net profit before one-off income and expenses.	TKH-wide.	0.4% of net profit before one-off income and expenses.		0.3% of net profit before one-off income and expenses.	12

### CSR progress report for 2016

Application of the GRI 4.0 guidelines and the associated communication on our sustainability performance leads to increased transparency. A nice confirmation of this is the great step forwards that TKH has made on the transparency benchmark, a benchmark in the field of communications on sustainability initiated by the Dutch Ministry of Economic Affairs.

In the year under review it became clear that the concept of the circular economy has become more relevant in the context of making processes in the value chain more sustainable. One of the consequences of this is that we, too, have approached our suppliers more often in relation to innovation issues and internal process optimization. In that context, we have also selected the circular economy as one of the topics for discussion during our stakeholder dialogue.

The number of requests for publishing sustainability results and performance on third-party platforms has increased. However, we are selective in agreeing to participate in such initiatives, aiming to steer a pragmatic course. In 2016, we provided input for the Carbon Disclosure Project (CDP), a not-for-profit organization that solicits environmental-impact data from organizations on behalf of investors and government agencies

using a platform it has developed itself. The data TKH supplied in 2016 relating to its carbon footprint resulted in a 'C' rating (awareness). This score shows the extent to which companies make CO<sub>2</sub>-reduction part of their strategy, policy and communication with stakeholders, but also whether they actually reduce emissions. The report made a few suggestions for improvement, which we will explore further with a view to implementing them.

The CSR reporting model is a continual point for attention. Participation in third-party platforms has led to the reporting model being expanded.

Each year we highlight specific subjects from the materiality matrix. Last year, the area in question involved the changes to Dutch legislation on whistleblowers and the position of the company confidential officer. Confidential officers in the Netherlands have received information on legislative changes and are trained to perform their duties to the best of their ability. The method of reporting and following-up on such reports also forms part of the training. The day was supervised by a third-party expert from the Compliance Institute. A webinar will be organized for similar officers in other countries, including a similar form of training.

## LMI has gained a position as a unique high-tech company

For LMI Technologies in Canada, 2016 was a varied year. The company successfully entered the strategic market for suppliers of consumer electronics, the largest worldwide market for its 3D inspection sensors intended for optimising manufacturing processes and improving quality control at production speed via so-called non-contact inspection. With its new product line, the Gocator 2400 sensor series, LMI is the first player in the industry to offer 6 micron scan resolution, partly thanks to key recommendations from industrial users, to system integrators. To be able to meet the growing demand for 3D sensors, LMI has also moved into a new premises, in which production space has doubled, and where a specially designed production facility has been built that will enable LMI to produce the highest possible quality 3D solutions.



It is now clear to us that CSR is increasingly being seen in a legal context. During the year we have frequently solicited the help of third-party experts on developments in this regard.

At the end of September 2015, the 193 countries of the General Assembly of the United Nations adopted the ‘Sustainable Development Goals’ (SDGs): 17 goals that cover a wide range of sustainable development issues, with the aim of making the world ‘a better place in 2030’, such as ending poverty and hunger, improving health care and education, making cities more sustainable and addressing climate-change issues. We have studied the SDGs and have weighed up these goals against our strategy and our CSR policy. An initial analysis showed that our strategy is directly related to some of the SDG objectives, i.e. that we already support them with targeted aims and programs. Where we, TKH, can really make a difference is with the products and comprehensive solutions we market. In 2017 we will be further exploring the extent to which we can mould our internal sustainability programs to match the SDGs.

In the following sections, we will report on specific indicators in the year under review, 2016, based on our 4 Ps: People, Planet, Profit and Positioning.



# PEOPLE

## CONSEQUENCES OF OUR BUSINESS OPERATIONS FOR OUR WORKFORCE.

TKH's strategy -and the challenging but realistic targets derived from it- focuses on a market-driven, innovative approach. This demands a qualified workforce. Various initiatives are being developed to keep our employees interested and committed and to attract people to TKH. As we follow good employment practices, the HR processes for our employees are well-organized. We aim to have an open business culture, in which employees are acknowledged and heard. In addition to a good working culture, we offer a safe and healthy working environment.

### Workforce and diversity

TKH is an international group of companies with a workforce that consists of many nationalities. In an international environment such as this, which demands a flexible, wide-ranging and innovative approach, we look at diversity from many angles. TKH operates a strict policy of equal treatment for all employees, regardless of race, nationality, ethnic background, age, religion, sex, sexual orientation or handicap.

At year-end 2016, the number of employees (in FTEs) was 5,509 (2015: 5,387 FTEs). The rise is primarily the result of investments in R&D and commercial organization as well as in extra personnel as a result of expansion investments in the manufacturing plants. At year-end 2016, there were 439 (FTE) temporary employees employed (2015: 441 FTEs).

The structure of the TKH workforce is characterized by diversity in terms of sex, a range of nationalities, backgrounds and levels of experience. The age structure is similarly balanced: 74% of our employees are younger than 50. Over half (56%) fall into the age range from 30-50. The consequence of this spread of ages is that positions at junior, middle and senior level are well represented. And the current spread of ages also leads to manageable levels in those leaving the organization as a result of retirement.

As a result of social trends, more and more workers are finding that carrying on working until a later retirement date is now a given rather than a matter of choice. In addition, the further automation leads to increasing workload and demands of our employees flexibility. As an employer, we try to keep older employees effectively employable, and have resources available that can be used in order to promote sustainable employability. For instance, we concentrate on education and training to help employees to be available for posting to a different position. Our 'vitality program' helps to support our employees push the boundaries and improve their vitality. Actually, sustainable employability focuses on young and old alike. Employees who are adaptable are better at responding to changes in their range of duties and career, and to developments in the organization. In addition to satisfied and motivated employees, our policy is part of our continuing work to address absenteeism and to retain knowledge in our organization.

The fact that we have a relatively high share of male employees can be attributed to the nature of the work we do, work that requires people with a technical/engineering background. The ratio of men to women in 2016 was 74%-26%. The ratio of men to women for newly-appointed employees was 63%-37%. Of employees leaving the company, the ratio of men to women was 68%-32%. There is no difference in the basic salaries of men and women.

In our recruitment policy, we are willing to hire people with physical disabilities and are also committed to being able to offer this group an attractive working environment. We fit out working places for employees with physical disabilities and remove hindrances wherever possible. We have created workstations for people with restricted opportunities on the labour market by means of 'job carving'. The duties involved in a job, or

## PEOPLE

### CONSEQUENCES OF OUR BUSINESS OPERATIONS FOR OUR WORKFORCE.

### WORKFORCE RATIO MEN-WOMEN in %

	2016		2015	
	Men	Women	Men	Women
Total workforce	74	26	74	26
Newly appointed	63	37	66	34
Departures	68	32	65	35

different jobs, are analyzed to identify the simplest duties, which are then combined into a new job. This might consist of supporting or manual activities, for example. The employees are supervised by an external job coach while the day-to-day management of the group is performed by a manager in the organization. In collaboration with the Netherlands Employees Insurance Agency (UWV), we create work experience jobs that can be regarded as temporary employment for the long-term unemployed or people re-joining the labour market, with the aim of providing them with work experience. The number of subsidiaries in the Netherlands that provide jobs for people with restricted opportunities on the labour market increased in the year under review. At year-end 2016, there were a total of 105 people with restricted opportunities on the labour market working in our organization (2015: 33 employees). The sharp rise is among others the result of renewed focus on the issue in our recruitment policy. We are following developments in the legal quota and have set ourselves the target of at least keeping the number of people who have a disability or restricted access to the job market working in the organization to the current level.

### Employees in the Netherlands covered by a collective bargaining agreement (CAO)

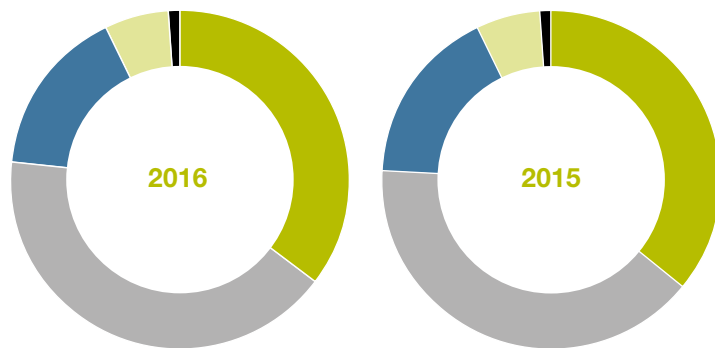
More than 76% of TKH's employees in the Netherlands are covered by a collective bargaining agreement (CAO). Agreement-related rules are observed in those subsidiaries where there is no collective bargaining agreement. TKH ensures that such schemes are correctly drafted and applied; particularly as regards periods of notice, restraint-of-trade clauses and profit-sharing arrangements, and that the employer complies with statutory notice periods and other provisions.

### Performance reviews

Every year, managers and employees take part in performance interviews in which a number of important issues are discussed regarding the employee's performance, results and development (general and career-specific). This cycle of performance interviews enables us to get a good idea of our employees' development potential. Our subsidiaries decide for themselves how performance interviews are to be arranged within their organization. However, TKH plays a strong advisory role in this process and encourages them to ensure that staff members have a performance interview mid-way through the year, and a performance review at the end of each year. This cycle enables us to work specifically on developing the skills that the employees need to perform their duties. The ultimate goal is to have performance interviews for all employees within the group. At this point, 80% of employees have had performance interviews. This is comparable with last year. This means that we fell short of our target of completing at least 90% of performance interviews. One of the foremost reasons for this is that during the year under review job descriptions were updated to reflect the prevailing situation; they now form a significant basis of the performance reviews, among other things. For that reason, this year, we expect an improvement in the number of interviews we complete.

A Performance & Talent Management program is being used to gain insight into the workforce as a whole with regard to the skills of our employees, based on a so-called 'talents profile'. This makes it possible for our employees to develop their talents in line with our organization's strategy.

### GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES in %



	2016	2015
Netherlands	35	36
Europe (other)	42	40
Asia	16	17
North America	6	6
Other	1	1



## Training, knowledge development and knowledge sharing

The entrepreneurial spirit and the scale of the business units appeal to many employees who regard TKH as an organization in which they can achieve personal growth and operate with a high degree of independence and responsibility. TKH's innovative spirit also contributes to its appeal. Accordingly, TKH has a growing reputation as an interesting organization to work for.

We devote attention to developing our employees in order to increase their professionalism and broaden their employability. Education and training are an indispensable part of maintaining our knowledge level. We organize in-company training with the support of external professionals so that this matches normal practice at TKH as closely as possible. We encourage a major part of learning ability to be developed through the work itself. Knowledge exchange between our subsidiaries also contributes to this. In addition, employees attend external training and education courses. In the past year we have also organized knowledge exchange through webinars, including sessions for financial controllers. The advantage this has is that current topics can be dealt with effectively and efficiently. Participants also have the opportunity to pose their own questions so that the group can learn from each others' questions. We intend to hold webinars more frequently this year in order to stimulate knowledge development.

A Management Development (MD) Program for young TKH managers with growth potential was established in cooperation with Nyenrode Business University in Breukelen.

The subsidiaries must include an annual plan of action in their strategic plans for education and training and must make a budget available for this purpose. The funds devoted to external training in 2016 amounted to € 2.5 million (2015: € 2.2 million). Expressed in hours, our employees spent 21 hours on education and training (2015: 17 hours), whilst our target was at least 16 hours per FTE on a yearly basis. The target was therefore comfortably achieved.



Terry Arden, CEO of LMI Technologies, with the 'Best Company Award'.

In its search for new talent, TKH maintains close contacts with business schools and universities. We have a close relationship with educational institutes that provide job-specific or management training courses. We offer work placements in order to attract potential talent at an early stage.

We think it is important that our operating companies can learn from each other and we select individual or clusters of subsidiaries as a benchmark for the entire group. Every year, the best performing TKH company receives an award. Criteria for nomination include financial performance, growth in profits over the year, the company's ability to innovate, entrepreneurship shown and business developments. In the year under review LMI Technologies ('LMI') received the TKH award. LMI is a trend-setter with its 3D laser scan technology, which is used in fields such as inspection and quality-control systems. The innovative character of the company, its financial results and, not least, its entrepreneurship, with a successful geographic expansion into Asia and Europe, proved decisive.

The TKH strategy and technological and business developments in the vertical growth markets were discussed in the annual international management conference for board members and strategic management. Developments relating to social media, CSR, cyber crime and cyber security were also covered.

### Health & Safety

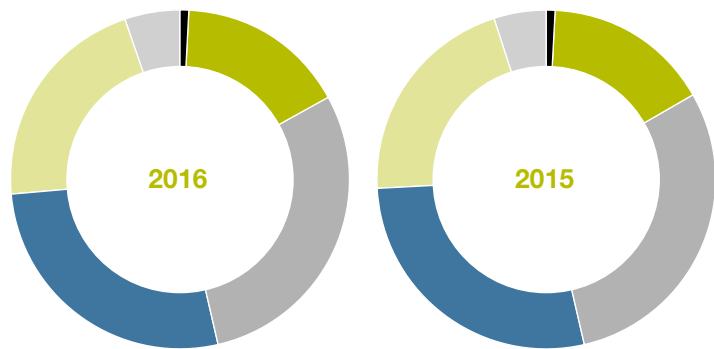
It is our duty to provide a healthy and safe working environment for our employees and for everyone concerned with the activities of TKH. Our organization focuses on prevention of industrial accidents. We do this not least by communicating via a regular safety bulletin and by registering accidents and near misses.

The number of registered industrial accidents in the organization rose from 96 in 2015 to 99 in 2016. However, it is important to understand that the proportion of employees in a manufacturing environment rose last year due to the roll-out of the investments. Moreover, we have noticed that the number of accidents involving temporary workers is relatively high. This means that supervision needs to be in order, with clear instructions on how to go about the work. Fortunately, there were no serious accidents resulting in permanent injury. The number of days' absence as a result of an industrial accident has been reduced substantially.

The safety policy has a high priority in the production organizations. Suitable measures have been taken to improve safety awareness such as information sessions and drawing up clear instructions for machine safety. There is strict supervision of the mandatory wearing of safety shoes and protective clothing. And we also encourage employees to confront each other in relation to potentially dangerous situations. The production companies are certified for the health & safety management system OHSAS 18001, embedding health & safety in the organization.

The percentage of absenteeism in 2016 was 2.98%, at the same low level as the result for last year (2015: 2.91%). This puts our absenteeism well below the average for the industry in the Netherlands, which is 4.0%. Sick leave management is primarily the responsibility of the line manager of the sick employee. The main aim of the sick leave policy is to manage and reduce short and medium-term sick leave. During the period of sick leave,

### EMPLOYEES CLASSIFIED ACCORDING TO AGE in %



	2016	2015
< 20	1	1
20 - 29	17	16
30 - 39	29	30
40 - 49	27	28
50 - 59	21	20
59 >	5	5



managers must maintain frequent contact with the employee concerned to further motivate him or her to return to active employment as soon as possible. Employees who report sick are immediately referred to the relevant occupational health and safety doctor or specialist. This means that the employee receives immediate medical attention and the company is informed at an earlier stage of the diagnosis, method of treatment and anticipated date of recovery. In addition, we provide physiotherapy on site and such things as workplace ergonomic assessments preventing absenteeism and to help optimize working conditions. We organize ergonomic lifting training sessions for employees whose work involves physical strain, with a potential risk of physical injury. All of this ensures that the employability and fitness for work of our employees is maintained and promoted. Training sessions on how to deal with absenteeism are organized for line managers, with a specific focus on mental and stress-related complaints. The aim of such sessions is to identify problems at an early stage and to be able to respond pro-actively in order to prevent absenteeism.

### Good employment practices, ethics and integrity

In order to measure our status as a good employer, we carry out employee satisfaction surveys (ESSs) about every three years. The surveys provide important input regarding the motivation, satisfaction and expectations of our employees. Follow-up surveys also measure the effects of improvement actions. We carry out these surveys in collaboration with a specialized market research agency. The total average score for employee satisfaction was 7.2, which was on a comparable level with that of last year (7.3), but above the benchmark level of 7.0. Research conducted in the year under review indicates that the score for the security aspect was again high, at 8.2 (2015: 8.1), followed by working conditions and collaboration, both scoring 7.5 (2015: 7.3 and 7.4 respectively). One item for improvement is communication with a score of 6.6. At 82% (2015: 73%), the response was good, putting it well above the industry average of about 70%. For us, this is a sign that our employees feel committed to the organization and understand the importance of such surveys.



### Culture and code of conduct

TKH has a decentralized organizational structure, assigning responsibilities as far down as possible in the organization. This approach leads to an entrepreneurial culture, in which employees have an eye for technological developments and an active marketing strategy. Sharing knowledge, using each other's sales and distribution channels and developing products jointly contribute to the progressive innovation of products and expansion of the product portfolio. Business risks are limited by a tight and clear delineation of responsibilities and powers that is monitored via an extensive dashboard. An open, transparent culture in which the organization is open to criticism is a condition for appropriately dealing with risks, responsibilities and powers, and for recognizing them in good time.

The provisions in the TKH code of conduct are an underlying principle of how we do business. It outlines the role that TKH wants to play in society and its core values that are derived from our mission and ambition. The code of conduct describes how TKH's employees should behave and do business in various circumstances and situations.

To ensure that every employee receives the code of conduct and behaves according to it, it has been decided that every employee will confirm in



writing that they have received the code of conduct and that they will act in accordance with it. The boards of all subsidiaries have also confirmed in writing that they have complied with the procedure for making the code available to all employees. The code of conduct has been signed by 97% of the total number of employees. We have not yet been able to reach the target of 100%, as we are active in some countries where the law does not recognize the concept of a code of conduct. We are in close contact with these subsidiaries and engage in dialogue with the local works councils about the usefulness and necessity of a code of conduct. Within the TKH organization as a whole, compliance with the code of conduct is closely monitored. The Internal Auditor's program includes procedures on compliance in that respect. The code of conduct can be downloaded from TKH's website.

Part of the code of conduct is a whistleblowers regulation. All employees of the TKH Group may report suspicions of wrongful conduct within TKH. Such a report will not affect the position of the whistleblower if the report is made in accordance with the procedure established for this purpose. Employees may consult a company confidential officer' appointed for this purpose within their own organization or the TKH Group 'compliance officer'.

If a report is made to a subsidiary, this must immediately also be reported to the TKH Group's compliance officer, who is a central point of referral for integrity issues. The latter, acting together with the Executive Board, deals with the report and, if desirable, consults the company confidential officer of the subsidiary concerned. After the report has been investigated, the Executive Board makes a decision in consultation with the board of the subsidiary concerned or a representative of that board.

Due to amendments to Dutch legislation, the TKH Whistleblowers framework has been adjusted accordingly. In a training day, company confidential officers in the Netherlands were informed of the amendments to the law, the adjustments to the framework and the manner in which reports should be made and followed up. The whistleblower framework can be downloaded from TKH's website. One integrity issues was reported to the compliance officer last year and was related to inaccurate credit card use. Appropriate measures have been taken.

# PLANET

## THE EFFECTS OF THE BUSINESS ON THE NATURAL ENVIRONMENT.

Our environmental policy is designed to achieve continuous improvement of the environmental performance and minimize the burden on the environment. In order to have an insight into environment-related elements, all our production companies are certified for the ISO 14001 environmental management system. This management system provides insight into the possibilities of improving environmental performance. Moreover, it focuses permanent attention on our environmental performance.

At all our production companies, from the initial design stage, the raw materials and other materials used are chosen so that they have little or no harmful impact on the environment. The amount of energy consumed during the production processes is also analyzed regularly and reduced further where possible through innovative measures and investments. The finished products comply with the European REACH and RoHS directives. REACH is a European system for registering, evaluating (risks to people and the environment) and authorizing chemical substances in Europe. RoHS is a European directive that prohibits certain hazardous substances from being used in electrical and electronic devices.

### Energy and emissions

We have had a program for reducing energy consumption for years. In this program, the consumption of fuels (litres), electricity (KwH) and natural gas (m<sup>3</sup>) is monitored. At 70% of the total KwH consumed, electricity consumption is the largest in terms of absolute volume, owing to its use in the production process, lighting, ventilation, air-conditioning and extraction systems. Gas represents 26% of the total KwH usage and is used for space heating in buildings and, to a much smaller extent (< 5%), process heating. Diesel and fuel oil are used primarily in Asia and constitute 4% of total consumption.

TKH measures its carbon footprint according to the Greenhouse Gas (GHG) protocol to measure the impact of its activities on the environment. This is a measurement of greenhouse gases converted into

CO<sub>2</sub> equivalents, with a distinction made between two main categories: direct and indirect CO<sub>2</sub> emissions.

- The category of direct CO<sub>2</sub> emissions includes fuel gas and other fossil fuels (natural gas, LPG, diesel), as well as, to a lesser extent, leased cars and the company's vehicle fleet.
- The indirect CO<sub>2</sub> emissions are related to electricity purchased.

Within TKH, indirect CO<sub>2</sub> emissions constitute a significant part of the total carbon footprint and are 87% of total CO<sub>2</sub> emissions.

From 2016, new internal targets have been set for energy and CO<sub>2</sub> reduction:

- 5% energy reduction in 2020 compared to the reference year 2015.
- 2.5% CO<sub>2</sub> reduction in 2020 (reference year 2015).

At the same time, we have altered the scope to subsidiaries in manufacturing, distribution and warehousing environments. In the past few years, we have successfully implemented energy savings. Energy consumption in subsidiaries within an office environment has stabilized over the past years, also because the nature of activities does not materially affect energy consumption. For that reason, we have removed these subsidiaries from our scope, but we will of course continue monitoring consumption.

Energy consumption in 2016, expressed in KwH, rose 4.1% compared to the reference year, 2015. Total energy consumption, relative to turnover, rose 7.8% compared to 2015. CO<sub>2</sub> emissions in 2016 rose 3.8% compared to 2015, and relative to turnover by 7.4%.

In the year under review, investments were made in manufacturing facilities, resulting in an increase in energy consumption. However, consumption to date cannot be recouped by the output resulting from these investments. Among other things, this applies to the new factory for sub-sea cable systems in Lochem (the Netherlands) and the new site for VMI tire building systems in Leszno (Poland). The planned roll-out of new business associated with this is expected to make a contribution as from mid-2017. In addition, investments have been made at existing facilities in additional manufacturing capacity, including at Commend in Salzburg (Austria) where capacity for communications technology was doubled leading to a rise in energy consumption. Turnover for TKH as a whole in 2016 was moreover lower than in 2015, which has a significant

## PLANET

### THE EFFECTS OF THE BUSINESS ON THE NATURAL ENVIRONMENT.

#### ENERGY CONSUMPTION

+4.1%

#### CO<sub>2</sub> EMISSION

+3.8%





impact on the calculation of energy and CO<sub>2</sub> reduction. Moreover, the targets must be spread over a 5-year period, whereas they are now compared to a 1-year period.

We have made a start on making our energy consumption sustainable by 'greening' our own electricity consumption through purchasing so-called green certificates. These represent a guarantee from us, as a consumer, to purchase a certain amount of electricity generated from renewable energy sources.

In addition to this, we will also further explore possibilities for innovative production techniques and efficiency improvements in the value chain. Our stakeholders have defined a reduction in CO<sub>2</sub> emissions as a material issue for TKH's sustainability policy. We consider it our moral duty to keep making a contribution to this issue.

### Fleet vehicles

The 'greening' of our fleet will also help to reduce CO<sub>2</sub> emissions. For the new fleet, we are restricting allowable CO<sub>2</sub> emissions to a maximum of 135 grams/km. According to European directives, this must be reduced to 95 grams/km by 2020, which has also been set as a target within the TKH Group. The average CO<sub>2</sub> emission in grams/km of TKH's existing Dutch lease fleet in 2016 was 101.8 grams/km (2015: 108.7 grams/km). The additions to the leased fleet in 2016 had average CO<sub>2</sub> emissions of 89.5 grams/km (2015: 88.7). In our commercial vehicle fleet, 21.5% of the

cars are now hybrid and electric (2015: 18%). This shows that TKH's sustainability policy is being successfully translated to our fleet policy.

### Reducing waste and the use of raw materials

Sustainable business practice is about making durable use of resources. TKH's operational excellence program enables it to continually focus on the use of resources, reducing waste, and errors in the production process. Efficient management of materials and raw materials is also extremely relevant because of the high consumption of valuable metals such as copper and aluminium, which form an essential part of the production process, and because of the waste that is generated. The main raw materials used by TKH are copper, granulate and aluminium.

Our policy is aimed at eliminating waste to such an extent that the impact on the environment and society is minimal. This also helps us avoid unnecessary costs.

We have adopted two approaches to this:

- Quantitative: we aim to reduce the quantity of waste at source structurally by increasing material productivity. By improving processes and by making innovations it will be possible to reduce waste streams.
- Qualitative: we aim to minimize the damaging effect of the waste. This entails combating the depletion of raw materials by using recycled materials and optimizing waste treatment by promoting greater co-operation throughout the value chain.

In the year under review, the total waste from the most relevant raw materials compared with production volumes dropped by 15.0%. This means that we are comfortably achieving the annual target of reducing waste by 5%. A nice improvement in waste from aluminium due to the investment in a so-called 'conformity line' for the production of aluminium conductors for cable production was achieved. The conformity line means that it is now possible to produce the aluminium to order length ourselves, whereas we previously had to purchase stock on the basis of fixed lengths from various suppliers. This created a lot of waste from off-cuts.

71.9% of the waste has subsequently been recycled, whereas our target had been set at 50%. Our copper supplier reprocesses pure copper waste into fully usable copper. So the figure for copper was almost 100% waste



recycling. Plastics that have become unusable during the cable production process but are suitable for recycling are offered to waste processing companies with a view to turning them into new raw materials. In this regard, we are conducting intensive discussions with waste sorting companies in the region. Cables and odd lengths of cable are sorted as much as possible and we are looking into the possibility of completely recycling the cables. The same applies to the plastics used as insulation and sheathing material. This has also led to an improvement of the percentage of waste recycled.

We are taking sustainability criteria into account in selecting raw materials and other materials, alongside price and quality, of course. The value chain also plays a large part in successfully introducing sustainable product innovations. We have become one of the chain partners in '100% circular use of materials in the underground infrastructure'. By working closely with partners in the chain, we will achieve the innovation that is necessary to fulfill our ambitions. An important subject for future consideration in that respect is increasing the availability of sufficiently high-quality recyclables for new products, and the acceleration of the recovery of high-quality recyclables from waste streams. Under a pilot project we are now procuring recycled material from Sweden, and it is our strong preference to be able to do so closer to our production site.



#### RECYCLING

71.9%

#### WASTE REDUCTION

15.0%

## PROFIT

A CONDITION FOR THE COMPANY'S CONTINUITY.

## ROS

10.9%

## ROCE

20.1%

# PROFIT

A CONDITION FOR THE COMPANY'S CONTINUITY.

TKH applies a strategy designed to achieve added value and thus safeguard the continuity of the business. We attach great importance to a stable and entrepreneurial climate. TKH wishes to achieve healthy annual earnings growth per share, for example by boosting turnover growth and establishing a strong position in the high-potential business sectors of telecoms, building solutions and industrial solutions. The objectives are continually measured and, where necessary, adjusted. TKH's most important financial objectives are announced in the Report of the Executive Board.

### Taxation

In recent years, 'fair share' tax contributions have become an important social issue, partly as a result of the OECD Base Erosion and Profit Shifting (BEPS) project. Taxation has thus become a part of TKH's corporate social responsibility.

We follow these developments and are transparent to the tax authorities in the countries where we operate. One of the elements of the BEPS project is that tax is paid where the economic activity and value creation mainly occurs. TKH's tax position is consistent with this and follows the

normal exercise of its operations and reflects the strategy and the geographical spread of its activities. TKH does not use tax havens for the purposes of tax avoidance. Furthermore, the basic principle is that TKH is compliant with national and international legislation and regulations.

Another consequence of the BEPS project is that TKH prepared a so-called Country-by-Country report ('CbC') with effect from the 2016 calendar year. This CbC report will be made available to the tax authorities of the countries in which TKH operates.

The table below shows actual tax paid in 2016 in each region. This also includes the revenues and the number of FTEs in the relevant region. The tax paid is often different from the calculated tax charge for the year due to temporary differences, deferred taxes and uncertain tax positions.

In 2016, TKH paid a total of € 25.8 million in income tax. As at 31 December 2016, an amount of € 5.9 million in profits tax is still payable by TKH on the basis of preliminary tax calculations. Note 33 to the financial statements includes a reconciliation of the effective tax rate.

### ACTUAL PAID TAXES IN 2016

In thousands of euros (unless stated otherwise)	Netherlands	Europe (other)	North America	Asia	Other	Total
<b>General information</b>						
Aggregated revenues realized by companies in the region, without elimination of intercompany deliveries	642.505	534.037	101.332	186.900	15.387	1.480.161
Number of FTE's	1.916	2.253	356	931	53	5.509
<b>Taxes (paid) / received</b>						
Current tax payable at 1 January 2016	-4.566	-1.763	-516	-753	-326	-7.924
Income tax paid to authorities in 2016	-11.195	-8.657	-2.520	-2.819	-559	-25.750
Current tax payable at 31 December 2016	-3.613	-1.417	-326	-584	4	-5.936

# POSITIONING

## SAFEGUARDING OUR GOOD REPUTATION.

We conduct our activities in accordance with principles of honesty, integrity and openness. We notify our stakeholders as much as possible of our operations and developments in the company. We justify our sustainability policy on the basis of internationally-recognized quality (and other) standards and labels, such as ISO and FSC certification. We have a thorough risk management system, on the basis of which we identify potential hazards and risks at an early stage so that they can be acted on and corrected.

CSR performance ladder certification has a positive effect on our internal organization as well as outwardly, towards our suppliers and customers. Internally, it leads to increased awareness of the issue, not least because of the implementation of audits and pre-audits. Satisfying sustainability criteria plays an increasingly decisive role in our customers awarding contracts. CSR performance ladder certification allows us to demonstrate objectively that our CSR management system is in order.

### Sustainable product portfolio

TKH strives for a balanced, sustainable product portfolio with innovative concepts perfectly tailored to customer demand. Sustainability criteria play an increasingly important role in this. In process innovations such as automation and robotization, there is a growing need for efficiency. These are interesting developments for us, which we can exploit with our technologies and total solutions and use to differentiate ourselves in the market.

Based on our innovation objective, we are also devoting attention to sustainable innovation. We have set ourselves the target that at least 15% of our turnover should derive from innovations introduced in the previous two years. The proportion of innovations in turnover was 19.0% in 2016.

Our products and systems have the relevant accreditation marks and certificates, and are supplied with clear manuals and specifications. If desired, we can supply measurement and test reports to demonstrate the quality of our products and systems.

### Sustainable customer relations

TKH constantly tries to exceed the customer's expectations by offering best-in-class solutions. Against that background, customer intimacy plays an important role within the organization. We know what our customers do and are able to provide tailor-made solutions. To achieve this, our employees have to put themselves in the position of our customers and try to divine their wishes and requirements. We also want to understand how our customers rate us and find this out using customer satisfaction surveys (CSSs). Based on the outcomes of these surveys, we can take specific action to serve our customers even better. As in the case of ESSs, the CSSs are conducted in a cycle of once every two to three years, depending on the action and improvement points from previous surveys. In 2016, too, the average score in the CSSs was 8.0, which is above the benchmark. Account management and our service level scored highest with 8.4. Complaints resolution scored lowest with 7.2. At 29% (2015: 31%), the response to the CSSs was somewhat low.

We want to supply solutions that satisfy the established quality standards. Our service should also be of the highest possible quality. In spite of this, we cannot always avoid customer dissatisfaction. Good complaints registration and resolution are thus a top priority. In 2016, over 70.1% of all complaints were resolved within 1 week (2015: 67.8%). We set a target of resolving at least 60% of all complaints within one working week. Obviously we want to further reduce the number of complaints. The CSSs show that the quality of complaints resolution is most important for the customer, along with the speed of resolution and communication. As far as we are concerned, these are areas in which work is ongoing to improve matters.

Our activities may cause nuisance in the surrounding area. We do our best to prevent or minimize nuisance and have adopted various internal guidelines and measures for this purpose. We register and manage internal and external environmental complaints, take suitable corrective and preventative measures, provide timely information to those

## POSITIONING

### SAFEGUARDING OUR GOOD REPUTATION.

## CUSTOMER SATISFACTION

8.0%

## COMPLAINTS RESOLVING

70.1%



concerned and endeavour to prevent or limit liability risks. In the past year, we received 3 complaints about noise disturbance that we were able to resolve (on consultation with those reporting the complaints) satisfactorily.

### Code of supply

TKH has a zero tolerance policy when it comes to unethical behaviour and we expect our suppliers to adhere to the same standards. Our requirements are drawn up in a code of supply, which targets such issues as human rights, the environment, health, safety and ethical behaviour. Every supplier that provides goods to the TKH Group worth in excess of € 1 million must sign the code of supply. In the event that a supplier does not respect one or more of the requirements outlined in the code, we expect the supplier to take action to satisfy the requirements as soon as possible. If the supplier refuses to co-operate or fails to make sufficient progress toward complying with the code, TKH will reconsider its partnership with that supplier. We realize that the ability to fully meet certain standards depends to some extent on the local circumstances of the supplier or the manufacturing location. If this situation makes it difficult for suppliers to comply with the agreed standards, we will enter into a dialogue with them to try and find a satisfactory solution. The code of supply has been signed by 77% of the suppliers to whom the criteria apply. This puts us well on track to achieving the target of 100% signed

codes in 2017. The code of supply can be downloaded from the TKH website. The year after the code of supply has been signed, there must be an assessment of the supplier in question to review items stipulated in the code. In the year under review we drafted an unambiguous manual with instructions on how to check those items, plus an assessment form. This form must first be filled in by the supplier, on the basis of which we can open discussions. The implementation of the assessment form was in mid-2016, so the assessments and site-visits in the year under review have not yet reached the 100% mark, but are currently at 75%.

### Human rights

We conduct our business activities in accordance with the 'Universal Declaration of Human Rights', which provides, among other things, that all parties in society, including companies, are obliged to respect and safeguard human rights. We call attention to this in both our code of conduct and our code of supply. Human rights form part of the OECD guidelines, which we use as a reference framework for our CSR policy. This makes the issue of human rights open to discussion in our operations. As it is an important issue in the code of supply and an important element in the assessment, this shows how our suppliers deal with human rights and we can quickly see individual 'unfavourable' effects in the field of human rights that are indirectly linked to our operations. The internal auditor covers this aspect as part of his auditing activities at the subsidiaries and questions our managers about their observance of human rights and whether there are any potential human rights conflicts that could arise, mainly in the value chain in which we operate.

### Community, Integrity

Integrity is one of TKH's core values. Acting with reliability and integrity is something we do as a matter of course. The TKH code of conduct provides guidelines that clearly express the importance of acting with integrity. We also cite the OECD guidelines. We strictly ensure that there is no corruption in any form at any level in our company. Control mechanisms are built into our tax and financial administration, among other areas, to this end. In the year under review, we have started the process of overhauling our code of conduct, not least in view of social developments at national and international level and because of tightening of guidelines. The new code will be implemented in 2017.



### Anti-competitive behaviour

Our company policy is that the 'free market' only works when there is fair competition. TKH fights anti-competitive behaviour by providing all parties with the same information, setting realistic requirements and establishing clear contract conditions. We also avoid any activities that are in conflict with legislation. Naturally, we abide by the applicable competition legislation.

### Sanctions

In the event that sanctions are imposed on our company, we will explain the cause and the corrective actions that have been taken. In 2016, we did not incur any sanctions.

### Community investments

TKH sponsors social activities and supports charities. The spur for this is our social engagement, hence we have been supporting social initiatives in health, sport and culture for many years. We regard sponsorship as a means of giving something back to people or organizations that need help. We wish to remain objective in this, which is why we do not support projects of a religious or political nature. We also use sponsorship to enhance our brand recognition and publicize our solutions. There is a distinction between sponsorship at TKH (holding company) level and sponsorship at subsidiary level, which mostly focuses on specific business activities or takes place locally. We also want to use sponsorship to increase the engagement and commitment of our employees. Last year too, TKH provided financial support for our employees to take part in socially-related sporting events. We also support cultural initiatives and local cultural heritage.

In 2016, TKH has spent 0.4% of its net profits before non-recurring income and expenses, on sponsorship and donations to charity (2015: 0.3%).

### CSR outlook

From reporting year 2017, the legal requirements for transparency on non-financial information and diversity in the directors' report of publicly-listed companies will be tightened as a result of the implementation of EU legislation. Under the revised Corporate Governance Code, greater transparency will also be expected on aspects that touch on CSR, including diversity. We have already included most of these topics in our



reporting, not least because our reporting is in line with the criteria for the Transparency Benchmark, but we will probably have to further tighten up reporting on a few points.

VMI in Epe (the Netherlands) has made preparations to achieve certification for both the CSR performance ladder and ISO 26000 in 2017.

Our CSR performance ladder certification allows us to demonstrate objectively that our CSR management system is proper. Nonetheless, we are receiving increasing requests from customers and investors to supply separate information on platforms such as CDP, Fira and Vigeo. In the coming reporting year, too, we will act very selectively in terms of promises relating to information provision via third-party platforms.

Further to the successful stakeholder dialogue in the year under review we will also organize a similar meeting in 2017, in which we will, once more, tackle current issues. We view the stakeholder dialogue as an important opportunity for communication, one where we can review our CSR policy with the target groups important to us. We will also get the necessary input that spurs us on to improvements in our policy and our approach to it.



## VMI expands production capacity with new facility in Poland

In November, the ground breaking ceremony for the new production facility of VMI Group in Leszno, Poland took place. The new facility in Poland will help shorten the delivery time of VMI's high-end tire building systems. The state-of-the-art production facility will produce according to the latest Lean principles, and it is expected to be operational mid 2017.

In relation to initiatives in the value chain, we will also act selectively in the near future, only considering participation in those initiatives that have a direct overlap with our activities. We will intensify existing value chain initiatives this year.

As far as our employees are concerned, we shall continue to do our utmost to provide them with an inspiring, challenging and safe environment in which to work. With regard to HR, we want to provide our people with direction so that everyone can contribute to developments at TKH. Our priorities in the area of People remain undiminished. In the context of continuing education and training, we will be deploying webinars and e-learning tools more frequently. This way, we aim to reach a large group of employees efficiently, broadening their knowledge in an effective way. And this year we will be starting a series of mini-master classes for strategic middle-management. We will be using short teaching modules to explain industry-specific programs. And the Management Development program will be followed up.

# OUTLOOK

The global economic outlook is generally positive. At the same time, uncertainties such as the geopolitical developments, the economic developments in China and low oil prices continue to have a negative impact on the willingness to invest in certain sectors. In order to respond to the market developments, we decided in the course of 2016 to further increase our R&D efforts and focus on acceleration of the growth programs within our vertical growth markets. This has created a strong foundation to safeguard our growth ambitions for the coming years.

Based on the implementation of our growth plans, together with the defined building blocks for growth and associated roll-out of new technology, we see a better starting position for growth in 2017 compared to a year ago. The expectation is that growth will materialize from 2018. The steps taken in 2016, provides confidence that we are on the right track. This creates a solid basis for our expectation to again increase turnover in the defined seven vertical growth markets of € 300 million and € 500 million in the coming three to five years.

Barring unforeseen circumstances, we expect the following developments for the year 2017.

## Telecom Solutions

We expect a further increase in investments in optical fibre networks in Europe and China. Due to our investments in market penetration within Europe in recent years, TKH's growth potential will be focused primarily on Europe. The scarcity of optical fibre in the Chinese market will decline in the course of 2017, which may result in pressure on margins.

## Building Solutions

We expect the reluctance to invest in the oil and gas industry to continue. At the same time, we do see growth in the Marine & Offshore segment given the start of our subsea cable systems activities. In addition, the technological developments in the Machine Vision portfolio will enable TKH to further expand its market share with advanced technology.

## Industrial Solutions

Investments in the industrial sector combined with robotization and automation are increasing, which means we expect to be able to realize growth in the sub-segment industrial connectivity systems. There is continuing reluctance to invest in China in the sub-segment manufacturing systems, but we see a large number of projects outside China that we expect to come to realization in the coming year. The order book at the start of 2017 is filled better than it was a year earlier, and on balance, we expect higher order intake in 2017 compared to last year.

As usual, TKH will give a concrete outlook for the full-year 2017 profit at the presentation of its interim results in August 2017.





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# SUPERVISORY BOARD

## MEMBERS SUPERVISORY BOARD



**Mr. H.J. (Herman) Hazewinkel RA**  
(1949 - Dutch), *chairman*

- 2005 First appointment
- 2017 Term limit

Former chairman of the Executive Board VolkerWessels

### Current positions

- Vice-chairman Supervisory Board Royal Boskalis Westminster NV
- Vice-chairman Supervisory Board Schiphol Group NV
- Chairman of Supervisory Board Soweco NV
- Chairman of Executive Committee, Stichting Continuity ASR
- Member of Executive Committee, Stichting Administratiekantoor "Slagheek"
- Non-executive partner Quadrum Capital BV

- Chairman Selection and Appointment Committee
- Member Audit Committee



**Mrs. M.E. (Marika) van Lier Lels**  
(1959 - Dutch), *vice-chair*

- 2006 First appointment
- 2018 Term limit

Professional supervisor / independent director - former COO Schiphol Group

### Current positions

- Non-executive Director RELX
- Member of Supervisory Board Eneco Holding NV
- Member Supervisory Board NS
- Member Council for the Environment and Infrastructure
- Member Foundation Aegon

- Chair Remuneration Committee
- Member Selection and Appointment Committee



**P.P.F.C. (Philip) Houben**  
(1950 - Dutch)

- 2009 First appointment
- 2017 Term limit

Former chairman of the Executive Board Wavin NV

### Current positions

- Member Supervisory Board Stork Technical Services
- Chairman Supervisory Board NV HVC
- Chairman Foundation Priority Antea Participaties

- Chairman Audit Committee



**R.L. (Rokus) van Iperen**  
(1953 - Dutch)

- 2011 First appointment
- 2020 Term limit

President & CEO of Canon Europe Ltd. / Senior Managing Executive Officer Canon Inc.  
Former Chairman of the Executive Board OCE NV

- Member Remuneration Committee



**A. (Antoon) De Proft MSc**  
(1960 - Belgian)

- 2014 First appointment
- 2018 Term limit

Managing Director ADP Vision

### Current positions

- CEO & President Septentrio Satellite Navigation
- Chairman Executive Board IMEC
- Chairman Executive Board Quest For Growth,
- Director Barco



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# REPORT OF THE SUPERVISORY BOARD

The Supervisory Board oversees the policy of the Executive Board and the general day-to-day business of the company and its affiliated businesses. The Supervisory Board advises the Executive Board, is guided in performing its duties by the interests of the company and its affiliated businesses and takes into account the relevant interests of the company's stakeholders. The members of the Supervisory Board are selected so as to provide a good representation of knowledge, experience and insight in relation to live topics at TKH, and markets and activities relevant to TKH. The Supervisory Board is governed by by-laws, which include rules covering such matters as the tasks, decision-making and competencies of the Board.

## Meetings during the year under review

In the year under review, five regular meetings were held which were attended by the Executive Board. At one meeting, one member of the Supervisory Board was unable to attend due to pressing reasons. In the case of inability to attend, the Supervisory Board member in question informs the chairman before the meeting of her/his views on the subjects to be discussed. Once the meeting has concluded, the absent member of the Supervisory Board is informed in person about the matters discussed. During the year under review, there were no subjects on the agenda that could potentially give rise to conflicts of interest. The discussion of the annual results took place in the presence of the external auditor.

The Supervisory Board met twice in the absence of the Executive Board. In March 2016, the Remuneration Committee explained the remuneration proposal for the Executive Board after which the Supervisory Board approved the proposal. In October 2016, the evaluation of the performance of the Supervisory Board, its committees and the Executive Board, as well as the cooperation with the Executive Board, were discussed during a closed meeting. This took place under the guidance of an external expert.

In preparation for the regular meetings, as well as to discuss ongoing matters that arose during the year, the chairman of the Supervisory Board had regular contact with the chairman of the Executive Board.

The Supervisory Board fulfils its tasks of supervising and advising the Executive Board based on both agenda items that recur at every meeting and on specific subjects that are relevant for discussion at a certain moment. The most prominent repeating agenda items are the strategic roadmap, financial developments, Investor Relations, acquisition possibilities, investments and divestments, technological developments and organizational and market developments. The content of the press releases surrounding the annual and half year figures are discussed with the entire Board prior to publication. The content of the press releases regarding the trading updates is discussed with the chairman of the Supervisory Board.

With a view to monitoring the strategic roadmap and the progress of strategic initiatives, the Executive Board provides an explanation at every meeting of the 'strategic scorecard'. This includes explanations of the 'high-lights' and 'low-lights' per solution segment, as well as the related action points for the short and medium term. Examples of matters discussed are general market developments, contracts won and the progress of technological developments that could impact the core business. Organizational changes within operating companies are also explained. In 2016, frequent attention was once again paid to TKH's vertical growth market strategy, with a specific focus last year based on a 'deep dive' for the vertical growth markets Marine & Offshore and Fibre Optic Networks. The Supervisory Board was informed about the general market developments in the relevant growth markets, TKH's value proposition in this regard, the challenges TKH faces and the further execution of the strategy. The separate growth markets are also on the agenda when there is cause for a strategic recalibration of the presented growth scenarios. To get a clearer idea of the execution of the strategic (investment) programs, the Supervisory Board visited the new production facility in Lochem (the Netherlands), where sub-sea cable systems are being manufactured. The optical fibre cable unit in Haaksbergen (the

Netherlands) was also visited. The aim of these company visits by the Supervisory Board is also to meet the local management and gain greater insight into the team's operational performance and challenges.

In the year under review, autonomous growth and integration of activities were once again the key focus points. Acquisitions remained limited to the airport lighting activities of HELLA, a leading portfolio based on innovative LED technology that reinforces the strategic activities of TKH in its vertical growth market Tunnel & Infra. This acquisition was discussed and approved by the Supervisory Board in the year under review in view of its strategic importance to our existing activities in the field of CEDD technology. Within the context of the strategic reorientation of TKH's portfolio, the sale of the activities in the management and exploitation of parking facilities (P&P) was discussed. The Board has approved the sale of these activities because the service operations of P&P did not really fit in with TKH's strategic focus on developing advanced proprietary technologies.

### Regular meetings

At its meeting in March, the Supervisory Board discussed the financial statements for 2015 included as part of the TKH annual report. The external auditor presented its findings in relation to the audit of the financial statements. The chairman of the Audit Committee reported on its meeting. In addition, the Supervisory Board discussed the dividend proposal that was presented at the AGM in April 2016.

Topics discussed during the meeting in April covered (profit) developments in the first quarter and the preparations for the AGM. Also the acquisition possibilities for the airport lighting portfolio of HELLA were considered and approved.

In August, the half-year figures were discussed. The chairman of the Audit Committee reported on the Audit Committee meeting. At the initiative of the Executive Board the subject of bringing forward conversion of the existing financing arrangements into a new multi-year financing agreement with more favourable conditions was discussed. The Supervisory Board agreed that this course of action should be pursued. The local management of the sub-sea cable production site in Lochem gave a presentation about the progress of this facility, the equipment,

the cable types and logistics. After the meeting, a tour of the production facility took place to give the members of the Supervisory Board an idea of its layout. The Board was very impressed with the high-grade technologies used to produce the sub-sea cable systems.

In the October meeting, the results of the third quarter were discussed. The Executive Board explained the developments in the vertical growth markets Marine & Offshore en Fibre Optic Networks. The Supervisory Board observed that TKH changed its strategic focus at the right time, given the reluctance towards investments in the oil and gas industry, with a focus on the market for sustainable energy generation, such as wind farms. The Selection & Appointments Committee reported on the selection procedure for possible candidates for the Supervisory Board in the context of the schedule for retirement. The desired profiles were discussed and adopted.

The 2017 budget and the 2017 investment plan were discussed and approved at the December meeting. The progress of the talks with the banking group for a new financing arrangement were explained. The developments in the HR field were also addressed with attention being paid to the Management Development program and the results of employee satisfaction surveys in 2016. The organizational structure was explained, including in relation to the way in which the Executive Board monitors the setup and effectiveness of the internal risk-management systems. The cultural aspect was discussed in relation to the TKH organizational structure and the international character of the company. It was observed that the culture within TKH is given frequent attention, partly as a permanent element of the employee satisfaction survey. The progress made in the area of Corporate Social Responsibility (CSR) was also elaborated on. The Supervisory Board was informed about the steps taken during the year under review as well as of the focus areas for the coming years. The steps taken have led to greater transparency, which has been confirmed by a significantly higher score on the transparency benchmark. The Supervisory Board recognizes the relevance of CSR and observes that it is well embedded in the TKH organization and that it is a full-fledged item of the strategic agenda.

Some Supervisory Board members discussed the business strategy and the general state of affairs with the Central Works Council. Topics were

considered that are actual within the separate Works Councils, where the Central Works Council asking specific for attention to be paid to the long-term employability of employees. A member of the Supervisory Board attended the annual Works Counsel Day. The Board regards the consultation with the Central Works Council as being open, constructive and valuable.

The Executive Board and the Supervisory Board are responsible for the Corporate Governance structure at TKH and compliance with the Corporate Governance Code ('Code'). Compliance with best practice provisions as well as any non-compliance are discussed yearly with the Executive Board. An explanation of the Corporate Governance Code is given on pages 75-79 of the annual report. The main changes in the revised 2016 Dutch Corporate Governance Code were discussed, as well as the possible consequences.

### Committees

The Supervisory Board of TKH has three committees: the Selection and Appointments Committee, the Remuneration Committee and the Audit Committee. The committees all have their own set of rules defining their conduct. These rules also state that the provisions as set down in the Code must be met.

The Selection and Appointments committee comprises Mr H.J. Hazewinkel (chairman) and Mrs M.E. van Lier Lels. The committee's role includes preparing the selection criteria and appointment procedures for members of the Supervisory Board and Executive Boards, as well as assessing the size and composition of both boards and drafting a profile of the Supervisory Board. The chairman of the Selection and Appointments Committee carries out individual performance review meetings with the members of the Executive Board once every year. Last year the Selection and Appointments Committee focused closely on the selection and nomination of candidates relating to the vacancies arising in the Supervisory Board. The committee also prepared the evaluation of the Supervisory Board together with an external advisor. The Selection and Appointments Committee reports the most important results of each of its meetings to the Supervisory Board.



Visit of Supervisory Board to TKF Telecom in Haaksbergen (the Netherlands).

The Remuneration Committee comprises Mrs M.E. Van Lier Lels (chair) and Mr R.L. van Iperen. The committee advises the Supervisory Board on the remuneration policy for the Executive and Supervisory Boards and makes proposals in this regard. The Remuneration Committee reports the most important results of each of its meetings to the Supervisory Board. The Remuneration Committee met once during the year under review. During the meeting, the remuneration policy and the realization of the targets of the Executive Board were evaluated and subsequently discussed with the chairman of the Executive Board. On the basis of the realized targets, the outcome was presented to the full Supervisory Board and decisions on the remuneration were made at the closed meeting of the Supervisory Board in March 2016.

The Audit Committee comprises Messrs P.P.F.C. Houben (chairman) and H.J. Hazewinkel, with the latter of the financial expert in accordance with the Dutch Corporate Governance Code. Mr. E.D.H. De Lange, CFO of TKH, served as an advisor. The chairman of the Audit Committee reported the most important results of each meeting to the Supervisory Board. The Audit Committee had three regular meetings during the year under review. These regular meetings were held together with the external auditor EY, the CFO, Internal Auditor and Director Finance & Control of TKH. At the initiative of TKH, the Tax Manager of TKH was also invited to two meetings to provide an explanation of general fiscal developments on



Visit of the Supervisory Board to the new sub-sea production location of TKF in Lochem (the Netherlands).

topics specific to TKH's tax situation, including developments relating to so-called 'Country by Country (CbC) Reporting'.

An ongoing consideration for the committee is the company's internal risk management and control system. Subjects that were also dealt with were taxes, the possible impact of the new IFRS 15 standard and impairment analyses.

The Internal Auditor gave a presentation of the findings of the internal audit activities at both the March and August meeting. At the August meeting, EY explained the Update Letter and in December the subsequent Management Letter containing the findings in the field of the administrative organization and internal control insofar as relevant for the audit.

In April, an extra Audit Committee meeting was held to prepare for the AGM. At this meeting, the evaluation of the external auditor was also discussed. The Audit Committee evaluates the performance of the external auditor annually with regard to the quality of the audit activities, the adequacy and fulfillment of the audit, and the quality and depth of the reports and any additional contributions. The Committee discusses its findings with the external auditor, as well as with the Supervisory Board and Executive Board. The evaluation of the external auditor was prepared using the points for attention and improvement drawn up independently of one another by both TKH and EY. This formed a sound and objective basis for the Audit Committee to discuss this topic.

The chairman of the Audit Committee also held a one-to-one discussion with the external auditor in 2016 in accordance with best practices provision III.5.9 of the Dutch Corporate Governance Code. It was also established that the external auditor is independent of TKH.

The Audit Committee discussed a number of times over the year the development of cyber crime in relation to the measures that need to be taken to avoid or prevent cyber risks. The cyber crime expert used a number of practical examples to explain the risk of cyber crime and how to recognize and prevent them at an early stage. The Audit Committee concluded that the topic of cyber crime and cyber risks has a high priority within TKH and is embedded in the risk-management system.

### Performance Supervisory Board and Executive Board

The self-assessment of the Supervisory Board was supervised this year by an external advisor. The effort and participation of each individual member of the Supervisory Board was discussed one-to-one with them, as well as the decision-making process within the Board, the quality of the decisions, the relation to the (members of) the Executive Board, the performance of the chairman of the Supervisory Board, the various committees of the Board and the Supervisory Board as a whole. The members of the Executive Board were also interviewed. In a closed meeting, the external advisor explained the outcome of the evaluation. Based on this self-assessment, it was concluded that the Supervisory Board has functioned well, both collectively and as individual members. The open relationship is marked by mutual respect. The members complement each other sufficiently in the context of their role in advising the company, and they cover a good range of focus areas. At this closed meeting the Board addressed the points set out in best practice provision III.1.7 of the Dutch Corporate Governance Code. It was established that every member of the Supervisory Board is independent within the meaning of best practice provision III.2.2 of the Code.

As part of the evaluation of the Executive Board, the chairman of the Supervisory Board held talks with the individual members of the Executive Board. The Supervisory Board last year again concluded that the cooperation between the members of the Executive Board was good and that there is a good balance between the members of the Board. The communication from the Executive Board to the Supervisory Board takes place in an open, professional and constructive manner so that Supervisory Board members have a strong connection with strategic and operational issues. It was concluded that a good working relationship exists between the Supervisory Board and the Executive Board, with a balanced division of time spent and an efficient division of tasks. It was also established that none of the members of the Executive Board have more than two 'demanding' supervisory positions as referred to in the Dutch Management and Supervision Act. The Supervisory Board has no indications of any kind of conflict of interest between the company and members of the Executive Board.



## Diversity

The composition of TKH's Supervisory Board is characterized by diversity of gender, background, experience and nationality. From existing and proposed legislation, requirements are made towards achieving a quota of at least 30% women and 30% men on the Supervisory Board, insofar as these seats are occupied by natural persons. This target has not been reached at present on the Supervisory Board, and only one of the five members is a woman. In its composition, the Supervisory Board strives for diversity among its members with regard to age, gender, area of expertise and social background. The aim is to strike a balance that reflects the aforementioned diversity. When vacancies (excluding reappointments) arise, the quota will be one of the points of attention. The decisive factor when filling vacancies is the quality, expertise and experience of the candidate.

## Schedule of retirement

At the end of the AGM of 3 May 2017, Messrs H.J. Hazewinkel and P.P.F.C. Houben will step down in accordance with the schedule of retirement. The regulations of the Supervisory Board and the articles of TKH state that Mr Houben may be reappointed for a further period of four years. Mr Houben has indicated that he is available for reappointment. In the case of Mr Hazewinkel, the statutory mandated term of office of three periods of four years has expired, creating a vacancy in the Supervisory Board. Given the need to safeguard continuity within the Supervisory Board, the selection process is also factoring in that in 2018 there will also be a vacancy for the position of Mrs M.E. Van Lier Lels, whose statutory mandated term of office will expire in that year. In terms of its diversity and the related target percentage, the Supervisory Board applies the principle that at least one of the two available positions should be filled by a female candidate. Moreover, Mr Hazewinkel serves as the financial expert in the Supervisory Board in accordance with provision III.3.2 of the Dutch Corporate Governance Code. To fill these vacancies, candidates were sought with broad, international experiences at management/director level within an international (technology) company. One candidate should have a financial background. After a careful selection procedure, Mrs C.W. (Carin) Gorter and Mr J.M. (Mel) Kroon MBA are willing to take a seat on the Supervisory Board. Mrs Gorter is the financial expert in accordance with the Dutch Corporate Governance Code.

The Central Works Council was notified of the reappointment and the vacancies and profiles of prospective candidates. Neither the reappointment of Mr Houben, nor the vacancy due to Mr Hazewinkel stepping down and no longer being eligible for reappointment, are subject to a special right of recommendation from the Central Works Council, as described in Section 19 (8) of the company's articles of association. However, the vacancy created by the appointment of an extra Supervisory Board member is subject to the special right of recommendation of the Central Works Council. The Central Works Council has stated that it does not wish to invoke its right of recommendation for the reappointment of Mr Houben or for the vacancy created due to Mr Hazewinkel stepping down. The Central Works Council has stated that it does however wish to invoke its special right of recommendation for the vacancy for an extra Supervisory Council member and recommends Mrs Gorter for this vacancy.

The AGM was informed about the vacancies and the associated profiles as well and was given an opportunity to recommend to the Supervisory Board candidates for nomination to the Supervisory Board that would satisfy the relevant profile. The Supervisory Board will recommend both the reappointment of Mr Houben and the appointment of Mrs Gorter and Mr Kroon to the AGM. With the nomination of the new candidates and the reappointment of Mr Houben, the Supervisory Board will temporarily -until the date of retirement of Mrs van Lier Lels in 2018- be expanded to six members.

With Mr Hazewinkel stepping down, the position of chairman has become vacant. The Supervisory Board has conducted a careful procedure to assess whether the new chairman should come from the Board's own ranks or whether it should be one of the candidates to be nominated. The Board expressed its preference to appoint a chairman from the ranks of the Supervisory Board and is delighted to report that Mr A. (Antoon) De Proft Msc. is prepared to fulfill this role, making him the successor of Mr Hazewinkel as chairman of the Supervisory Board after the 2017 AGM has concluded.

### Annual financial statements for the 2016 financial year

The Report of the Executive Board and the 2016 financial statements were submitted to the Supervisory Board in accordance with the provisions in Article 31 of the articles of association. The financial statements were submitted for auditing to Ernst & Young Accountants LLP ('EY'), which subsequently issued an unqualified auditor's report on the financial statements. The Supervisory Board has discussed the financial statements with the Executive Board in the presence of the external auditor, and subsequently approved the financial statements on 6 March 2017. The Supervisory Board submits the financial statements for the 2016 financial year to the AGM and recommends adopting the financial statements.

The Supervisory Board is of the opinion that the financial statements constitute a sound basis for the account that the Executive Board must give of its management and the Supervisory Board must give of its supervision of the management. The Supervisory Board also proposes to approve the proposed profit appropriation and to discharge the Executive Board in respect of the policies pursued and the Supervisory Board in respect of the supervision conducted.

### Finally

During the year under review, good progress was made in the strategic development of TKH. The focus on the four core technologies and on the seven vertical growth markets led to a further integration of activities. In the year under review, a great deal of attention was given to the R&D roadmap and the planned roll-out of the new business related to this. TKH is managing to maintain an effective balance on the financial performance on short and long term in the realization of margins on one hand and, on the other hand, the necessary investment in R&D to

safeguard the continuity of TKH and its value-creation developments for the longer term. That creates a stronger foundation for the future.

The commitment, involvement and quality of the staff within TKH are decisive factors in TKH's successes. We therefore express our sincere gratitude and thanks to the Executive Board and to all staff for their extraordinary efforts yet again in the year under review. We would also like to thank the shareholders and holders of depositary receipts of shares for the confidence they have shown in the company.

Haaksbergen, 6 March 2017

On behalf of the Supervisory Board,  
H.J. Hazewinkel, *chairman*

### Word of gratitude

Mr Hazewinkel has been involved in TKH as a member of the Supervisory Board for a period of 12 years, serving as chairman from 2006. The Supervisory Board would like to express its sincere gratitude and thanks to Mr Hazewinkel for the outstanding way in which he fulfilled his role as chairman. The Board has benefited greatly from his management experience and his professional expertise in the financial field. He carried out his role as chairman with a great deal of dedication and was very involved in developments at TKH.

M.E. van Lier Lels, *vice-chair*  
P.P.F.C. Houben  
R.L. van Iperen  
A. De Proft Msc.

# REMUNERATION REPORT

This report issued by the Remuneration Committee details the remuneration policy and the remuneration received by the members of the Executive Board. The remuneration policy is formulated by the Remuneration Committee and approved by the Supervisory Board. The remuneration policy was adopted by the General Meeting held on 28 April 2005. Any future significant policy changes will be submitted to the General Meeting. Note 35 of the financial statements include a schematic overview of the remuneration of the Executive Board.

## Remuneration policy

The policy aims at providing a competitive compensation package to attract, motivate and retain qualified managers for a publicly listed company, while considering TKH's size and unique characteristics. The compensation package is measured periodically against market trends using information provided by external experts. The compensation package is structured so that both short- and long-term goals are maintained. The Remuneration Committee prepares as of 2010 according to the determined targets, scenario analysis (best practice provision 11.2.1 Corporate Governance Code) in relation to the STI and LTI that should be achieved.

## Remuneration

The remuneration payable to the members of the Executive Board comprises a basic salary (TRI), pension, a variable element comprising an annual performance bonus (STI), and a long-term bonus (LTI) scheme entailing a share scheme. The compensation for the members of the Executive Board was checked in 2014 against external market conformity and on this basis adjusted.

## Basic salary (Total Regular Income: TRI)

Each year, the Supervisory Board determines whether and to what extent, the basic salary will be adjusted, taking into account the developments in this regard in the market and within TKH.

## Performance bonus (Short Term Incentive: STI)

Variable remuneration represents a major component of the remuneration package for the Executive Board. The performance bonus is related to targets and criteria. Yearly, the targets and criteria, on which the performance bonus is based, are set. The amount of the performance bonus is determined by the extent to which targets and criteria are met. The maximum performance bonus has been set at 60% of basic salary (TRI). The Supervisory Board, on recommendation of the Remuneration Committee, sets the performance bonus amount on the basis of the targets and criteria that have been met. The realization of 50% of the maximum bonus is based on EBITA-targets and 30% is based on autonomous revenue growth targets. The other 20% of the maximum bonus is determined by the realization of personal targets and criteria. Realization 'at target' results in a bonus of 40% of basic salary (TRI). The Supervisory Board has the discretionary power to depart from the set targets where exceptional circumstances arise. The realization of the targets and criteria for 2016 resulted in 68% of the maximum performance bonus for the Executive Board, equal to 41.0% of basic salary (TRI). The Supervisory Board has the discretionary power to recover from the Executive Board the variable remuneration granted that is based on false (financial) data. Payment to the members of the Executive Board is made under the condition of accuracy of the relevant (financial) data. This is in line with the Claw Back legislation that is in force as from 1 January 2014. There is no 'change of control' paragraph included in the employment contract of the members of the Executive Board.

## Share scheme (Long Term Incentive: LTI)

A share scheme which provides for a long-term bonus scheme is in force in connection with long-term targets. The scheme enables members of the Executive Board to acquire shares free of charge in return for which the members of the Executive Board are required to purchase for own account the same number of shares for the price quoted on the stock

exchange at that moment. The development of ROS and ROCE as well as the share price development in comparison to the -for TKH- relevant AMX-index, result in share allotment. The long-term targets for the Executive Board relate to the TKH-objectives set in this annual report. The scheme sets a maximum allotment of 32,000 (depository receipts of) shares per Executive Board member per annum. The shares in question are to be held as a long-term investment and may not be sold for a period of three years. Based on the realized targets for 2016, Mr J.M.A. van der Lof has been allotted (depository receipts of) shares with a value of € 324,832, Mr E.D.H. de Lange (depository receipts of) shares with a value of € 243,623 and Mr A.E. Dehn (depository receipt of) shares with a value of € 199,617. At the same time, each member of the Executive Board has to purchase the same number of (depository receipts of) shares, for the same amount that has been allotted. These share transactions will be executed after the publication of the annual results at the average closing price of the three trading days as from the date of publication of the annual results. The table in the financial statements, note 35 -remuneration key management-, include the value of the allotment that has been grossed for income tax purposes.

### Peer Group

The Remuneration Committee consults independent remuneration advisors to match remuneration data from companies from the peer group with remuneration data of TKH. The labour market peer group consists of the following companies: Aalberts Industries, Accell Group, ASML, Belden, Group Schneider (France), Leoni (Germany), Kendrion, Nedap, Prysmian Group and Royal Ten Cate.

### Pension

The Remuneration Committee supervises that Executive Board members' pension is in line with generally accepted standards and ensures that it is compatible with the pension schemes available for similar positions. In addition the pension arrangements include the right to benefit in the case of poor health or invalidity and a widow's and orphan's pension in the event of death subject to conditions similar to those applicable to participants in the collective pension fund. See also notes 17 and 35 of the consolidated financial statements.

### Personal loans

The company grants no personal loans or guarantees to Executive Board members.

### Remuneration policy Supervisory Board

The General Meeting adopted the remuneration of the members of the Supervisory Board in 2015. The remuneration of a member of the Supervisory Board does not depend on the company's results. The remuneration of the chairman of the Supervisory Board is € 47,000 and of the members of the Supervisory Board € 36,000. The annual remuneration for every participation in a Committee of the Supervisory Board is € 8,000 for the chairman and € 6,000 for other members. A remuneration for the membership of the Selection and Appointment Committee is not yet granted. No options are granted to the members of the Supervisory Board.



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# CORPORATE GOVERNANCE AT TKH

**On 8 December 2016, the Monitoring Committee Corporate Governance Code published the revised Corporate Governance Code (‘Code 2016’). Dutch listed companies are expected to report in 2018 on compliance with the revised Code for the 2017 financial year. The Code 2016 entails a number of important changes in relation to the provisions of the Corporate Governance Code (‘Code’). In the coming months we will analyze in more detail what the changes in the Code 2016 mean for TKH, how the provisions can be complied with and which provisions cannot be complied with, so that we will provide a reasoned account of this in the 2017 Annual Report.**

The Code has been designated for the 2016 financial year as code of conduct referred to in Article 2:391(5) of the Civil Code. This means that statements concerning the principles and best practice provisions from the Code are made in this Report.

The Executive Board and the Supervisory Board attach great importance to compliance with the principles of integrity, accountability and transparency in the management and oversight of the company. The Corporate Governance structure within TKH is based on the requirements of the Dutch Civil Code, the articles of Association and the Dutch Corporate Governance Code (the ‘Code’) and various internal regulations.

## Corporate Governance structure

TKH Group NV is a public limited company under Dutch law. The management of the company lies with the Executive Board under the supervision of the Supervisory Board. The Executive Board and the Supervisory Board are responsible for the Corporate Governance structure at TKH and compliance with the Code. The Code contains principles and best practices for Dutch companies with listed shares. Deviations from the Code are explained in accordance with the ‘comply or explain’

principle set out in the Code. TKH complies with the majority of the recommendations contained in the Code and continuously tests whether it is possible to realize improvements in compliance with the Code. In accordance with the recommendation of the Corporate Governance Monitoring Committee, the main outlines of TKH’s Corporate Governance structure, as well as compliance with the principles and best practice provisions, including an explanation of the deviations, were discussed in the General Meeting of Shareholders on 27 April 2010. The Corporate Governance structure has not changed substantially since then. If significant changes in the structure and in the compliance with the Code occur, these will be presented to the General Meeting of Shareholders for their discussion as a separate item on the agenda. In this chapter we provide a brief outline of the recommendations from the Code, together with an explanation of the points on which the company departs from the Code with a careful statement of its reasons for doing so, and a description of proposed implementing measures designed to further improve the Corporate Governance structure.

On 7 May 2013, the General Meeting of Shareholders endorsed the proposal for TKH to apply the limited two-tier entity regime voluntarily. The main difference between the full regime and the limited regime is that the members of the Executive Board are no longer appointed and dismissed by the Supervisory Board, but by the General Meeting of Shareholders. This appointment by the General Meeting takes place by binding nomination of the Supervisory Board and is in compliance with the Code. The articles of association of TKH were last amended on 15 May 2013.



### Executive Board

The Executive Board is charged with managing the company, which means, among other things, that it is responsible for achieving the company's objectives, the strategy and associated risk profile, the development of results and corporate social responsibility issues that are relevant to the business. The Board is also responsible for compliance with all relevant law and regulations, for managing the risks associated with the company's activities and for financing the company. Any conflict of interest or appearance of conflict of interest between the company and the Executive Board shall be avoided. The Supervisory Board supervises this. The Executive Board currently comprises three members. For practical reasons, the Executive Board has created an internal division of duties, which indicates the responsibilities of individual members for specific functional and business areas. The members of the Executive Board are appointed by the General Meeting of Shareholders by binding nomination of the Supervisory Board. In this context, the company's articles of association contain the following rules:

- The General Meeting of Shareholders can cancel the binding nature of a nomination by resolution passed with an absolute majority of the votes cast, representing at least one-third of the issued capital.
- If the General Meeting of Shareholders has cancelled the binding nature of a nomination on two occasions, it is free to appoint a member of the Executive Board for the vacancy, on the understanding

that it can only do so with an absolute majority of the votes cast, representing at least one-third of the issued capital, and in compliance with the other requirements laid down in TKH's articles of association.

The General Meeting of Shareholders may suspend or dismiss a member of the Executive Board:

- If the Supervisory Board has proposed the suspension or dismissal of a member of the Executive Board to the General Meeting of Shareholders, the General Meeting of Shareholders may resolve to do so with a simple majority of votes.
- If the Supervisory Board has not put forward a proposal, the General Meeting of Shareholders may only resolve to suspend or dismiss a member of the Executive Board with an absolute majority of the votes cast, representing more than one-third of the issued capital of TKH, and in compliance with the other requirements laid down in TKH's articles of association.
- A member of the Executive Board may be suspended by the Supervisory Board at any time.

The Executive Board, as well as each individual member of the Executive Board, is independently authorized to represent the company. TKH endorses the principles relating to 'Role and procedure' (II.1), 'Remuneration' (II.2) and 'Conflicts of interest' (II.3) as set out in the Code, unless otherwise mentioned below. TKH also endorses the accompanying best practice provisions. The rules governing the Executive Board also reflect these principles and best practice provisions to the extent that they are relevant to and applied by the company.

TKH has the following reservations:

- The best practice provision with respect to the maximum term of appointment of four years (II 1.1) will not be followed for two of the three Executive Board members. Mr. J.M.A. van der Lof MBA has been employed by TKH since 1982 and was appointed as a member of the Executive Board in 1998. Mr. E.D.H. de Lange MBA has been employed by TKH since 1998 and was appointed as a member of the Executive Board in 2008. TKH's point of view with respect to them both is that existing contractual agreements, prior to the adoption of the Code, cannot be broken and that existing contracts of employment are respected. The best practice provision does apply to Mr. A.E. Dehn,

who entered into service at TKH and was appointed as a member of the Executive Board on 1 August 2011. At the General Meeting of Shareholders on 7 May 2015, Mr. Dehn was reappointed by the General Meeting of Shareholders for a further term of four years by binding nomination by the Supervisory Board. The appointment is for a period of four years from the time of closing of said General Meeting of Shareholders until the closing of the Annual General Meeting of Shareholders in 2019.

- The remuneration policy is presented in the remuneration report, which forms part of the Report of the Supervisory Board. A scenario analysis prior to the drafting and adoption of the remuneration policy has been added as an element of this. There is a share plan rather than a share option plan for the members of the Executive Board. The share plan involves a financial contribution for the Executive Board since the individual members must buy the same number of shares as the number that are awarded 'free of charge' within the framework of the plan. Due to the financial contribution by the members of the Executive Board, it is stipulated that the shares must be held for at least three years (best practice provision II.2.4. and II.2.5.). With respect to best practice provision II.2.8, the severance payment is a maximum of one year's salary. The existing employment contracts of the members of the Executive Board do not include a 'change of control' clause (best practice provision II.2.14).

With respect to the provisions of chapter II.2 relating to the remuneration policy and report (best practice provisions II.2.10 to II.2.15), for an explanation of these provisions we refer to the remuneration report, which forms part of the Report of the Supervisory Board. If there is a change in the value of a conditional award of variable remuneration components for the Executive Board (best practice provision II.2.10), this will be reported in the remuneration report.

### **Supervisory Board**

The role of the Supervisory Board is to supervise the policies of the Executive Board and the general affairs of the company and its affiliated business and to assist the Executive Board by providing advice. In performing its duties, the Supervisory Board shall be guided by the interests of the company and its affiliated business and shall take into account the relevant interests of the company's stakeholders. The

Supervisory Board also have to address corporate social responsibility issues that are relevant to the company. The Supervisory Board consists entirely of non-executive directors and all members are 'independent' as defined in best practice provision III.2.2. The Supervisory Board currently consists of five members, whereby it is proposed to the General Meeting in 2017 to expand the number of Supervisory Board members temporarily to six. With regard to the appointment of Supervisory Directors, the articles of association of the company include the following:

- Members of the Supervisory Board are appointed by the General Meeting of Shareholders on the recommendation of the Supervisory Board. The General Meeting of Shareholders may reject the nomination by an absolute majority of the votes cast, representing at least one-third of the issued capital. If the General Meeting of Shareholders does not appoint the nominated person and does not resolve to reject the nomination, the Supervisory Board shall appoint the nominated person.
- Account is taken of the criteria referred to in the profile when nominating candidates.
- The Central Works Council and the General Meeting of Shareholders may recommend candidates for the Supervisory Board.
- The Central Works Council has a special right of recommendation in respect of one-third of the members of the Supervisory Board. If the Supervisory Board rejects the recommendation, it shall enter into consultations with the Central Works Council. If the Supervisory Board and the Central Works Council fail to reach agreement, the Enterprise Division shall make the final decision.

The members of the Supervisory Board are appointed for a period of four years, after which reappointment may follow. In accordance with the Code and articles of association, a member of the Supervisory Board can be reappointed twice for a full term after a first term of office. The time of resignation of members of the Supervisory Board is recorded in a retirement schedule. The Supervisory Board appoints from among its members a chairman and vice-chairman to replace the chairman should the occasion arise. The vice-chairman is also the point of contact for individual members of the Supervisory Board and directors concerning the functioning of the chairman.

The General Meeting of Shareholders may pass a resolution of no confidence in the Supervisory Board by an absolute majority of the votes cast, representing at least one-third of the issued capital, resulting in the immediate discharge of the members of the Supervisory Board. Prior to this, the Central Works Council must be given the opportunity to take a position on the matter. The Supervisory Board may suspend a Supervisory Board member.

TKH endorses the principles and underlying best practice provisions set out in chapter III of the Code as they relate to the Supervisory Board and applies them, unless otherwise stated below. The rules governing the Supervisory Board and the profile also reflect the principles and best practice provisions to the extent that these are relevant to and applied by the company.

- The Supervisory Board has a profile in which the aspects that are relevant to the company, with respect to diversity in the composition of the Supervisory Board and the specific objectives pursued by the Supervisory Board in terms of diversity on the basis of best practice provision III.3.1 are addressed. The current composition of the Supervisory Board is the point of departure for the annual evaluation by the Supervisory Board. At the moment, there is diversity in the Supervisory Board in terms of representation of both men and women and representation of more than one nationality. Further information about the composition and diversity in the Supervisory Board can be found in the Report of the Supervisory Board.
- The regulations of the Supervisory Board include rules on handling (potential) conflicts of interest between members of the Supervisory Board in relation to the company. The company also has a set of rules governing possession of and transactions in securities by directors and members of the Supervisory Board other than those issued by their 'own' company.
- In accordance with principle III.5, TKH has installed a Selection and Appointment Committee, a Remuneration Committee and an Audit Committee. Separate regulations have been drafted for each committee (III.5.1). With regard to best practice provision III.5.13 concerning the possible use of the services of a remuneration consultant, the Remuneration Committee has assured itself that the relevant consultant does not provide advice to the Executive Board of TKH.

## General Meeting of Shareholders

A General Meeting of Shareholders is held annually. Extraordinary General Meetings are held as often as considered desirable by the Executive Board or Supervisory Board and also as often as requested in writing to the Executive Board or Supervisory Board by shareholders and/or holders of depositary receipts, representing at least 10% of the issued capital, with a specification of the topics to be discussed. TKH endorses the principles and underlying best practice provisions formulated in chapter IV of the Code and relating to the shareholders and applies them, unless otherwise stated below.

- Depositary receipts of shares (principle IV.2): Ordinary shares in the company, with the exception of registered shares, have been transferred by notarial deed to Stichting Administratiekantoor TKH Group ('Trust Foundation'). In exchange for these shares the Trust Foundation issues depositary receipts for those shares. The voting rights to the shares are vested in the Trust Foundation. If requested to do so by the holders of depositary receipts, the Trust Foundation must give them authorization to cast a vote, to the exclusion of the Trust Foundation, on the shares for which the holder has depositary receipts, at a General Meeting of Shareholders specified in the proxy. The authorization is unrestricted and is therefore not subject to any exchangeability limit. The Trust Foundation is not required by law (Article 2:118a of the Netherlands Civil Code) to grant the proxy or may withdraw a proxy that has been given if a) a hostile public offer is announced or made or is expected to be made, b) one or more persons possess at least 25% of the depositary receipts and/or shares, or c) in the opinion of the Trust Foundation the voting right of a holder of a depositary receipt is fundamentally in conflict with the interest of the company. If the Trust Foundation avails of one of these possibilities, it must notify the holders of depositary receipts stating reasons.
- The Executive Committee of the Trust Foundation consists entirely of independent members. The Trust Foundation must exercise the rights attached to the shares in such a way that the interests of the company and its associated businesses and all its stakeholders are protected as well as possible.
- No depositary receipts have been issued for the cumulative preference financing shares, the cumulative protective preference shares, the priority shares or the registered shares. Further information about the capital structure of the company by means of the Takeover Directive



Article 1, paragraph 1, sub a, can be found in chapter “The TKH share’ and in the notes to the financial statements.

- TKH’s articles of association allow the Executive Board to decide that shareholders may exercise their voting rights before the General Meeting of Shareholders by electronic means. TKH offers shareholders and depositary receipt holders the possibility of issuing an electronic proxy to vote in accordance with the e-voting system prior to the AGM (Principle IV.1).
- TKH does not comply with the provision that all shareholders should be able to follow the analyst meetings, presentations to (institutional) investors and press conferences at the same time by means of web-casting, telephone lines or otherwise (best practice provision IV.3.1.). TKH chooses for a transparent communication which is tuned to the audience, where the risk of transparency to competitors will be reduced as much as possible. Annually, this subject is evaluated on current events. TKH publishes its financial calendar on the website, which also includes analyst meetings and press conferences. The presentations from these meetings are placed on the TKH website. TKH has an investor relations policy which it has posted on its website (best practice provision IV.3.13). By providing relevant financial and other information properly and in a timely fashion, the applicable restrictions are observed and care is taken that relevant information is provided equally and simultaneously to all stakeholders and that it is available to them on its website.

### Financial reporting and external auditor

TKH endorses the principles and the accompanying best practice provisions relating to ‘Financial reporting’ (principle V.1.), ‘Role, appointment, remuneration and assessment of the functioning of the external auditor’ (principle V.2.) and ‘Relationship and communication by the external auditor with the bodies of the company’ (principle V.4.), and applies them. The Audit Committee evaluates the functioning of the external auditor annually and advises on the nomination of the external auditor. At the Meeting of May 2014 the General Meeting of Shareholders endorsed the appointment of Ernst & Young Accountants LLP (‘EY’) as independent auditor for the financial years 2015, 2016 and 2017. The Audit Committee advised the Supervisory Board on this nomination, after which the Supervisory Board recommended the appointment of EY as independent auditor to the shareholders. The Audit Committee annually evaluates the

performance of the external auditor and advises on the nomination of the external auditor. The Audit Committee has advised the Supervisory Board to recommend the appointment of EY as independent auditor for the financial year 2018 to the shareholders. TKH has appointed an Internal Auditor. The Internal Auditor falls under the responsibility of the Executive Board and has access to the external auditor and to the chairman of the Audit Committee (principle V.3. and best practice provision V.3.2).

### Corporate Governance Statement

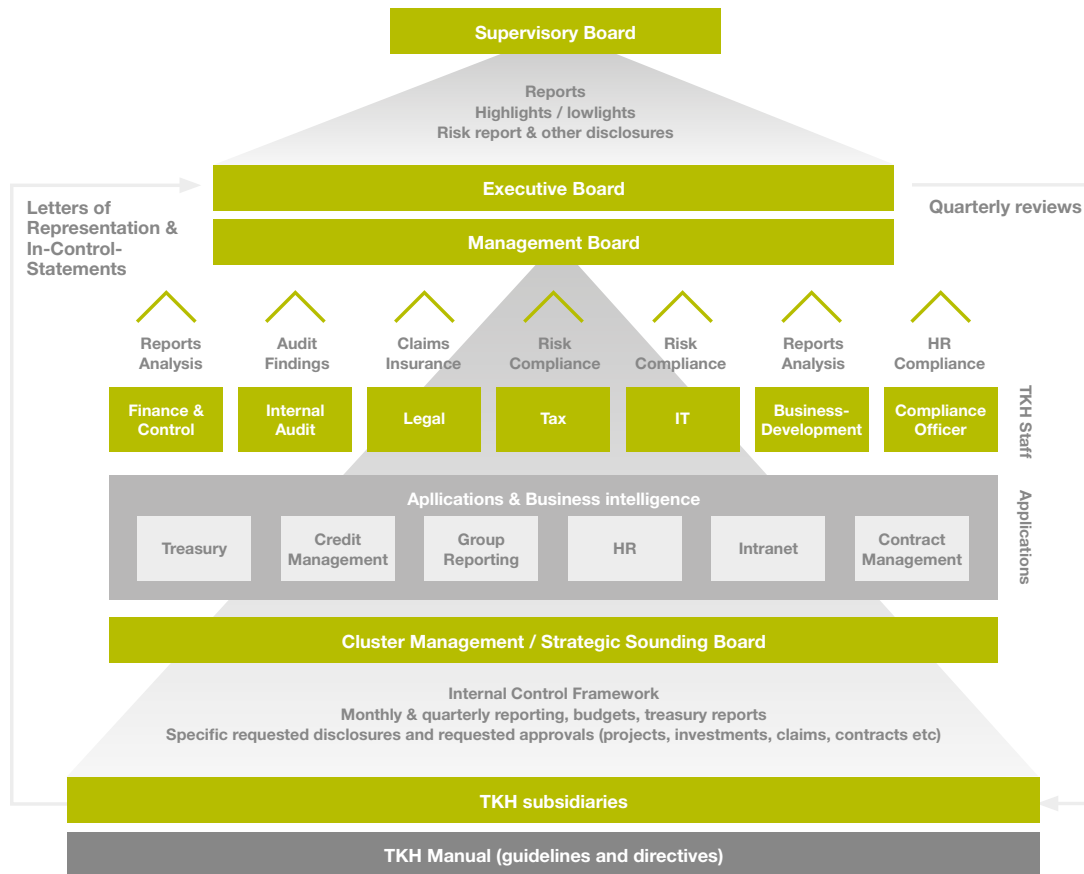
This is a statement concerning Corporate Governance as referred to in article 2a of the Decree laying down additional requirements for annual reports [Vaststellingsbesluit nadere voorschriften inhoud jaarverslag] effective as of 1 January 2010 (the ‘Decree’). The information required to be included in this Corporate Governance statement pursuant to articles 3, 3a and 3b of the Decree can be found in the following chapters, sections and pages of this annual Report 2016 and is deemed to be included and repeated in this statement:

- the information concerning compliance with the principles and best practices of the Dutch Corporate Governance Code as required by article 3 of the Decree can be found in the chapter on ‘Corporate Governance at TKH’;
- the information concerning the main features of the internal risk management and control systems relating to the financial reporting process as required by article 3a sub a of the Decree can be found in the chapter on ‘Risk Management’;
- the information regarding the functioning of the General Meeting and the main authorities and rights of the shareholders and holders of depositary receipts in shares as required by article 3a sub b of the Decree, can be found in the chapter on ‘Corporate Governance at TKH’;
- the information regarding the composition and functioning of the Executive Board, the Supervisory Board and its Committees as required by article 3a sub c of the Decree can be found in the chapter on ‘Corporate Governance at TKH’, the ‘Report of the Supervisory Board’ and in the ‘Report of the Executive Board’;
- the information referred to in the Takeover Directive (Article 10) Decree as required by article 3b of the Decree can be found in the chapter on ‘Corporate Governance at TKH’, ‘The TKH Share’ and in the notes to the company financial statements.

This Corporate Governance statement can also be found on TKH’s website.

# RISK MANAGEMENT

## RISK MANAGEMENT AND CONTROL SYSTEMS



The risk management policy of TKH, under the responsibility of the Executive Board, is an integral part of its strategic policy and receives constant attention. The aim is to optimally control the most important risks that TKH is or may be exposed to, to facilitate the reliable realization of operational and financial objectives and to ensure compliance with legislation and regulations. The risk management policy and the risks are regularly reviewed and discussed within the Executive Board, the Audit Committee and the Supervisory Board.

### Risk management and control systems

TKH has embedded its risk management policy in all levels of the organization. Various types of risk management and control systems are used, with the following being important components of this.

- An Internal Control Framework (ICF) based on the 'Committee of Sponsoring Organizations of the Tread way Commission' (COSO 2013). This framework is used by TKH to analyze and evaluate the strategic, operational, financial and compliance risks for each operating company.
- The TKH Manual includes regulations, statutes and guidelines for decision-making procedures and authorities for the strategic management of our operating companies. Treasury policy is defined in this, as well as the various rules of conduct, such as an authority to sign a code of conduct and a whistleblower procedure. It also contains guidelines for internal management and control measures, for internal and external financial reporting, for insurance and how to deal with claims.
- For the design and maintenance of the financial accounts and reports, guidelines and instructions have been drawn up that comply with the applicable IFRS standards. This includes extensive budget and report processes, whereby the monthly results are analyzed in relation to the budget and the forecast for the entire year is revised if necessary.
- At least once a quarter, among other things, the results, the financial

position, the outlook and the risks identified for each operating company are discussed between the Executive Board and local management.

The risk management policy is tailored to the size and decentralized structure of TKH. The components of the TKH risk management policy are assessed by the Internal Auditor. Each operating company's main strategic, operational, financial and compliance risks are identified and evaluated and their potential impact on the company is determined. The results of these analyses are discussed with the Executive Board. The Internal Auditor discusses the most important findings of these assessments with the Audit Committee at least twice a year. The Executive Board, internal Legal Advisor, Director Finance & Control and the Compliance Officer also evaluate components of the risk management policy. The design, existence and operating effectiveness of the internal risk management and control systems for external financial reporting are also assessed by the external auditor in the context of the audit of the financial statements. The outcomes and impact of this on the audit strategy are discussed with the Executive Board and the Audit Committee.

TKH has a cascade system of 'Letters of Representation' and 'In-Control Statements'. The management and controllers of the operating companies confirm to the best of their knowledge:

- That the strategic, operational, financial and compliance risks have been analyzed and assessed;
- That the risk management and control systems with respect to external financial reporting risks functioned adequately in the preceding year;
- The accuracy and completeness of the information presented in the internal annual reports;
- The correct application of the TKH accounting principles as included in the TKH Manual.

### Developments in 2016

In 2016 no risks and uncertainties occurred which had a significant impact on TKH.

In the year under review, the internal risk management policies were evaluated and a number of improvements were made. The risk assessments were updated. Continuous monitoring takes place in order to

adjust the analyses to changing internal and external conditions if necessary. In addition, a start was made with the integration of the Internal Control Framework in the financial reporting system. In this way, risks and associated measures at operating company level will also be linked to the financial reporting, making the risk management process more effective and efficient. In 2017, the integration of the key processes and/or operating companies will be rolled out.

Furthermore, a number of TKH guidelines have been updated, partly due to changes in legislation and regulations such as the implementation of the so-called 'House for Whistleblowers Act'. There is also a continuous focus on the internal awareness of TKH guidelines by means of providing training materials and tools to operating companies and internal training courses, for example for the TKH confidential officers.

In 2016, an internal project was started in the context of an updated IT and Security Policy, with specific attention being paid to cyber crime and related IT risks. Attention is also paid here to the formalization and documentation of a number of IT sub-processes, particularly in the area of user and change management. This will be part of the IT audits in 2017.

On 8 December 2016, the Monitoring Committee Corporate Governance Code published the revised Corporate Governance Code ('Code 2016'). Dutch listed companies are expected to report in 2018 on compliance with the revised Code for the 2017 financial year. The 2016 Code among other things entails a number of important changes with respect to the Internal Audit function. In the coming months we will analyze in more detail what the changes in the new Code mean for TKH, how the provisions may be complied with, so that we can report on this in the 2017 annual report.

### Risk appetite

It is the duty of the Executive Board to balance the business opportunities with the expectations and interests of shareholders, employees, financiers, supervisors and other strategic stakeholders. Decisions regarding changes or fine-tuning of our business models are taken by the Executive Board in accordance with the risk appetite of TKH. A balance is specifically sought between risk on the one hand and long-term sustainable growth on the other.

## TKH RISK APPETITE 2016

	Averse	Minimal	Cautious	Open	Hungry
Strategic					
Operational					
Financial					
Compliance					

### Most important risks and measures

On the basis of risk analyses (impact and probability), the most important risks are identified and clustered into four categories: strategic risks, operational risks, financial risks and compliance risks.

- Strategic risks mainly relate to risks associated with an inadequate response to the necessity of creating distinctive, innovative and essential knowledge and expertise, as well as ensuring the effective utilization of qualified personnel. In general, strategic risks have an impact in the medium or long term and usually manifest themselves gradually over time.

- Operational risks mainly relate to project management, the availability of raw materials and IT, including the threat of cyber crime. Inadequate control of operational risks can have a significant negative impact in the short and long term.
- Financial risks often involve risks that directly or indirectly affect TKH's financial resources. These often include risks in the area of financial valuations, including raw material prices and currencies, but also the risks of uncollectable receivables on customers. The impact can be considerable if such risks are not properly managed.
- Compliance concerns both compliance with legislation and regulations and the enforcing of internal regulations such as the TKH code of conduct. Ensuring and promoting integrity is an integral part of this risk category. Inadequate control may, for example, lead to reputational damage and immediately have a significant impact.

The following overview shows the most important risks, with a high or medium impact and probability, for each category, as well as the related key measures to mitigate the risk.

## RISK APPETITE

	DESCRIPTION OF THE RISK	MITIGATING MEASURES
<b>Strategic</b>		
1	Global economic and geopolitical situation.	<ul style="list-style-type: none"> <li>• Spread of activities across multiple product/market combinations.</li> <li>• Focus on vertical growth markets.</li> <li>• Internal efficiency programs and cost reduction programs.</li> <li>• Geographical spread across Europe, North America and Asia.</li> </ul>
2	Speed of technological developments and new technologies from competitors.	<ul style="list-style-type: none"> <li>• Realize at least 15% of the turnover with innovations that have been introduced in the two previous years.</li> <li>• Continuous focus on innovation and the R&amp;D roadmap.</li> </ul>



## RISK APPETITE

	DESCRIPTION OF THE RISK	MITIGATING MEASURES
3	Shortage of well-qualified staff and inability to retain qualified staff.	<ul style="list-style-type: none"> <li>• Performance / Talent management program in each operating company.</li> <li>• Management Development Program.</li> <li>• Regular staff satisfaction surveys.</li> <li>• Use good reputation as an attractive employer to recruit talented employees.</li> </ul>
4	Unsuccessful integration of acquired companies.	<ul style="list-style-type: none"> <li>• Procedures and guidelines for the implementation of a due diligence process.</li> <li>• Integration in the TKH reporting and control systems.</li> <li>• Harmonization of business processes and systems where necessary and desirable.</li> <li>• Continuous attention to the creation and utilization of synergy effects.</li> </ul>
<b>Operational</b>		
5	Deficiencies in project management.	<ul style="list-style-type: none"> <li>• Investment in qualified staff.</li> <li>• Training and education of staff.</li> <li>• Guidelines and procedures with respect to project management.</li> <li>• Important projects are discussed at quarterly meetings between the Executive Board and local management. Major projects with above-average risks are monitored on a regular basis.</li> </ul>
6	Important raw materials are unavailable or available in limited quantities.	<ul style="list-style-type: none"> <li>• Purchasing raw materials from several carefully selected suppliers and concluding multi-year framework agreements with the suppliers of important raw materials.</li> <li>• The suppliers are selected by means of a vendor selection procedure with performance also being regularly analyzed.</li> <li>• Interest of 12.5% in the supplier of optical fibre preforms.</li> </ul>
7	Decentralized IT landscape and use of different ERP systems can lead to complexity in the IT infrastructure and the IT policy, as well as cyber crime risks.	<ul style="list-style-type: none"> <li>• TKH has issued guidelines setting out the requirements for an ICT infrastructure, including the most important IT controls, partly within the context of cyber crime risks.</li> <li>• Companies from the same region or cluster are stimulated to generate economies of scale in the ICT field where possible.</li> <li>• Important developments, trends and risks in the ICT field if applicable, are discussed between ICT managers of the most important companies.</li> <li>• The internal and external security environment is tested by a specialized external advisor.</li> </ul>
<b>Financial</b>		
8	Reporting risks in areas such as revenue recognition, goodwill valuation and impairment testing and valuation of inventories and construction contracts.	<ul style="list-style-type: none"> <li>• Internal procedures and guidelines for internal and external financial reporting and internal and external verification of reports.</li> <li>• Controller meetings are regularly organized with important reporting issues being discussed.</li> <li>• Training and education of staff.</li> <li>• The performance of regular impairment testing, including the annually updated budgets.</li> <li>• Deployment of 'Business Intelligence' tools to gain insight into risks at an early stage.</li> <li>• Representation letter and In-Control Statement for each operating company.</li> </ul>
9	Volatility of currencies.	<ul style="list-style-type: none"> <li>• Treasury Statute that establishes the currency risk management, including responsibilities, authorizations and reports.</li> <li>• Material exchange rate risks are hedged in accordance with the Treasury Statute if these risks cannot be passed on in the market.</li> <li>• Exchange rate risk that arises from the translation of net investments in currencies other than the euro are partly hedged by financing investments in local currency. Monetary assets and liabilities in the same currency are netted as much as possible.</li> <li>• Time differences between the settlement of forward transactions and sales and purchase contracts are overcome by using foreign currency bank accounts or by rolling over forward contracts.</li> </ul>
10	Volatility of interest.	<ul style="list-style-type: none"> <li>• The interest risk policy is determined at TKH level.</li> <li>• Balances with credit institutions are compensated to minimize interest charges.</li> <li>• Long-term financing is attracted at variable rates and is if necessary fixed by means of interest rate swaps.</li> </ul>

## RISK APPETITE

DESCRIPTION OF THE RISK	MITIGATING MEASURES
11 Volatility of raw material prices.	<ul style="list-style-type: none"> <li>• Economic stock positions are limited as far as possible.</li> <li>• The copper positions of each operating company are monitored for the economic inventory positions, inventory prices, rate of turnover and expected relationship between copper prices and selling prices (price elasticity).</li> <li>• Price developments are incorporated as far as possible in the selling price of products and/or services or where possible hedged on the futures market.</li> <li>• Every month price developments, economic inventory positions and hedges are discussed by a committee made up of members from various disciplines and chaired by TKH's CFO.</li> <li>• Derivatives are used to a limited extent to hedge the price risk on free inventories.</li> <li>• Important raw materials such as copper are purchased forward in order to eliminate price risks on the sale of finished products, if:               <ul style="list-style-type: none"> <li>• a sales contract is concluded at a fixed price;</li> <li>• delivery does not take place within one month, and;</li> <li>• a significant amount of raw material is needed for the production.</li> </ul> </li> </ul>
12 Credit risk.	<ul style="list-style-type: none"> <li>• The credit risk for cash and cash equivalents is run at major international system banks.</li> <li>• The principal credit risks relate to trade debtors. However, the risk is spread over a large number of customers that operate in various countries and in different markets.</li> <li>• Part of the risk is insured with credit insurance companies. In addition, part of the risk is transferred to factoring companies. The insurances and factoring mainly concerns receivables on customers in the connectivity and manufacturing systems sub-segments. These customers are mainly located in the Netherlands, France, Germany and Asia.</li> <li>• For orders mainly to international customers, TKH uses bank guarantees, advance payments (against a bank guarantee) or confirmed irrevocable Letters of Credit.</li> </ul>
<b>Compliance</b>	
13 Fraud and corruption.	<ul style="list-style-type: none"> <li>• Internal guidelines relate to, for example, internal control measures, responsibilities and authorization requirements of the management, a code of conduct and a whistleblower procedure.</li> <li>• Monitoring of financial flows by TKH among other things by monitoring:               <ul style="list-style-type: none"> <li>• the transactions executed through the central treasury system;</li> <li>• the establishment of banking authorizations;</li> <li>• the setting of credit limits for each operating company, with no local credits being permitted with banks outside TKH's banking group;</li> <li>• the use of banks prescribed by TKH unless another bank is required at the local level because only a local bank is able to deliver the required service.</li> </ul> </li> <li>• During controller meetings and the international management meeting considerable attention is paid to the identification and prevention of fraud and corruption.</li> <li>• The work with agents and intermediaries is framed by guidelines and contracts.</li> <li>• By means of the TKH code of conduct, all our employees are aware of how they should do business honestly, and by signing this they have agreed to act accordingly.</li> <li>• In all layers of our company compliance with internal guidelines relating to integrity and behaviour is strictly monitored (zero tolerance).</li> </ul>
14 Compliance with (tax) legislation and regulations.	<ul style="list-style-type: none"> <li>• Centralized monitoring of compliance and developments in the field of (new) legislation and regulations related to tax, sanction regulation and developments in general.</li> <li>• In the context of horizontal supervision, there is open communication with the tax authorities.</li> <li>• Make use of external tax advisors for specialized subjects.</li> <li>• Tax Control Framework.</li> <li>• Internal tax reports.</li> <li>• Internal guidelines regarding compliance with sanction regulations, including a procedure in respect of supplies to sanctioned countries.</li> </ul>

In addition to the most important risks as referred to aforementioned, other risks have been identified, with a low impact and probability, that are also included in TKH's internal risk management system.

This includes, among other things, the following risks:

- Limited market share and brand awareness in a number of sub-segments.
- Dependence on government measures in a number of markets such as healthcare, construction and infrastructure.
- Niche specifications are becoming standard commodity solutions.
- Dependence upon customers and suppliers in a number of sub-segments.

- Disasters within production facilities.
- Infringement of IP rights of and by third parties.
- Pension risks.
- Inadequate funding.

### Quantification of risks and sensitivity analysis

For the most important risks, the impact on the result and financial position of TKH is where possible quantified should these risks occur.

Where possible, a sensitivity analysis is also included.

## QUANTIFICATION OF RISKS AND SENSITIVITY ANALYSIS

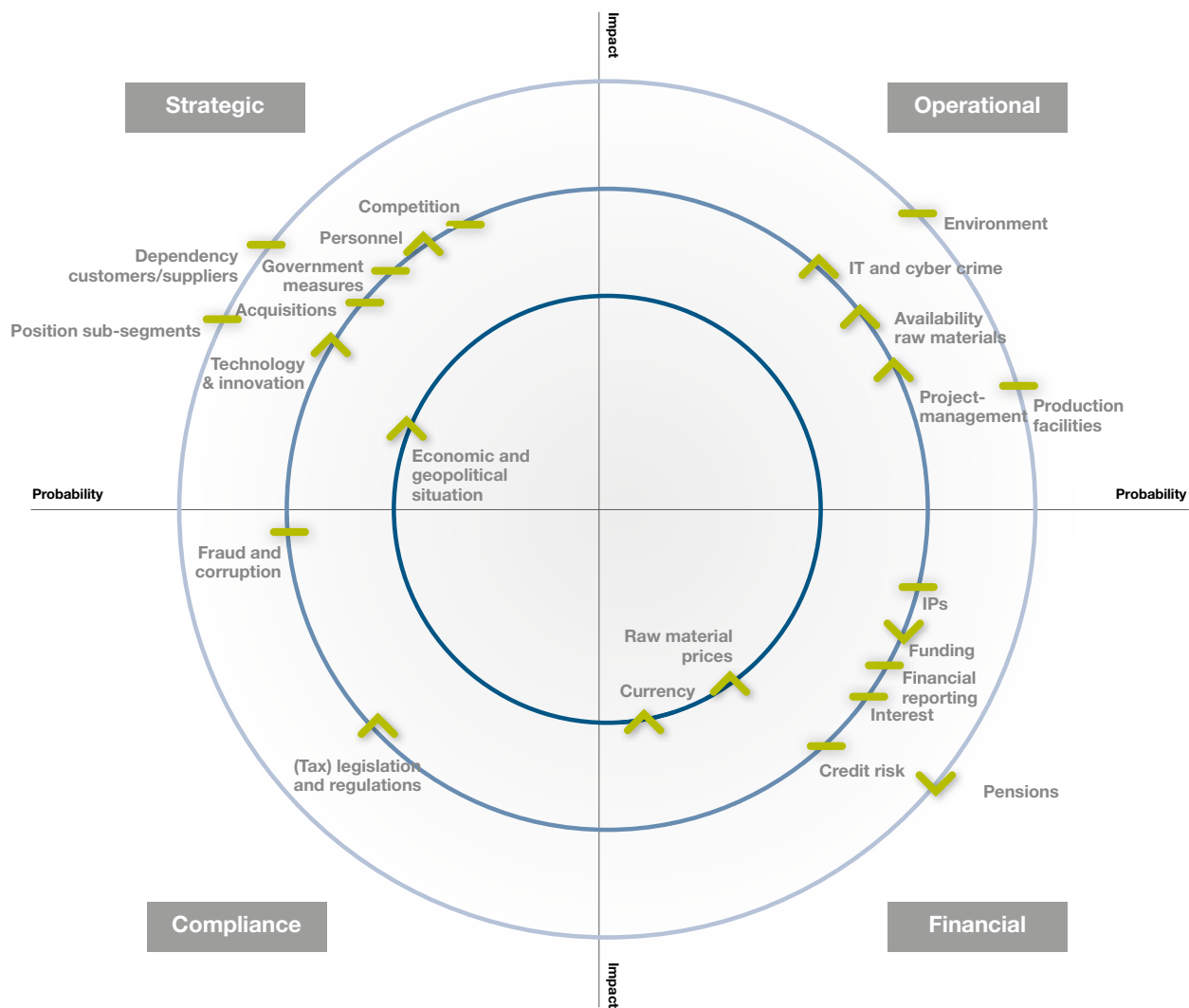
	MOVEMENT	IMPACT	ON	ASSUMPTIONS (BASED ON 2016 FINANCIAL STATEMENTS)	RELATE TO RISK
Turnover	1%	€ 6.8 million	EBITA	No adjustment of operating costs.	1, 2, 4, 6, 9, 11
Raw material price copper	10%	€ 2.2 million	EBITA	No derivatives to hedge price risks.	11
Gross margin	1%	€ 13.4 million	EBITA	No adjustment of operating costs.	1, 2, 4, 6, 9, 11
Operating costs	1%	€ 5.2 million	EBITA	No adjustment of turnover/gross margin.	operational and financial risks
Cash conversion cycle	1 day	€ 1.9 million	Working capital	All other variables remain constant.	financial risks
Currencies - financial instruments	10%	€ 2.3 million	Net result	All other variables remain constant.	9
Currencies - translation net assets	10%	€ 19.2 million	Shareholders' equity	All other variables remain constant.	9
Interest	1%	€ 0.8 million	Net result	Bank debt including deduction of interest rate swaps maintained at variable interest rates.	10
Interest - valuation financial instruments	1%	€ 1.2 million	Shareholders' equity	Based on concluded interest rate swaps.	10
Net debt	10%	€ 0.5 million	Net result	On the basis of stable interest rates and partly increase in USD debt.	10

In the financial statements, including note 21, the objectives and the TKH policy is included regarding the use of financial instruments for the purpose of risk management and also the hedging of risks associated with all the important types of transactions of which TKH is at risk for capital, liquidity, interest, currency, credit and price related risks.

### Risk classification and trends

For each risk, TKH assesses the possible impact on the organization and the probability that this risk will occur (risk classification). The impact includes financial and non-financial factors such as reputation. The assessment takes the existing risk management systems at TKH into

## RISK CLASSIFICATION AND TRENDS



### Risk impact and probability

- High impact and probability
- Medium impact and probability
- Low impact and probability

### Trend compared to 2015

- ▲ Increased
- ▼ Decreased
- Unchanged

account. A trend analysis comparing the situation with last year is also included. The model with risk classification and trends is a dynamic model that can modify due to changed external circumstances, or because of changes in the risk management systems.

### Planned improvements in the risk management system in 2017

The risk management policy of TKH is an integral part of its strategic policy and receives constant attention. The aim is for optimization and efficiency of the risk management system as a whole. A number of objectives have been formulated for 2017 that are expected to improve the risk management system:

- Evaluation of the internal risk management system and the updating of the risk analyses based on changing internal and external conditions.
- Analyze in detail what the changes to the Corporate Governance Code 2016 entail for the risk management system and the Internal Audit function within TKH.
- Further integration of the Internal Control Framework in the internal financial reporting system.
- Implementation of a new TKH Manual that includes recent internal and external developments.
- Implementation of an updated IT and Security Policy, with specific attention being paid to cyber crime and related IT risks. Attention will also be paid to the formalization and documentation of a number of IT sub-processes, particularly in the area of user and change management. This will be part of the IT audits in 2017.
- Further roll-out of centralized monitoring of tax compliance at operating companies.
- Continuous focus on the internal awareness of TKH guidelines by means of providing training materials and tools to operating companies and training courses.
- Further professionalization of reporting by operating companies with respect to business plans and financial reports, as well as in the field of CSR, taxes and risks.

In addition to the above priorities, attention will be paid in 2017 to the implementation of IFRS 15 Revenue from Contracts with Customers.



# MANAGEMENT STATEMENT

The Board of Directors is responsible for the design and effectiveness of the internal systems for risk management and control. The purpose of these systems is to identify and effectively manage the significant risks to which the company is exposed. However, they can never provide an absolute guarantee that the group will achieve its objectives and cannot entirely prevent major errors or losses, incidents of fraud or actions in breach of laws and regulations.

The Executive Board assesses the strategic, operational, financial and compliance risks as well as the design and effectiveness of the internal risk management and control systems as described in the section on 'Risk Management'.

The effectiveness and functioning of the internal risk management and control systems are discussed each year with the Audit Committee and the Supervisory Board. Taking into account the aforementioned risks and the measures designed to manage them, and in accordance with the best practice provision II.1.5. of the Dutch Corporate Governance Code, the Executive Board declares that to the best of its knowledge:

- The risk management and control systems provide a reasonable assurance that the financial reporting does not contain any errors of material importance;
- The risk management and control systems worked properly in the year under review.

With reference to Section 5.25c (2c) of the Financial Supervision Act (Wft), the Executive Board declares that to the best of its knowledge:

- The financial statements give a true and fair view of the assets, liabilities, financial position and profit of TKH and the companies included in the consolidation;
- The report of the Executive Board gives a true and fair view of the situation on 31 December 2016, the state of affairs at TKH and its affiliated companies during 2016, the details of which are presented in the financial statements, and that the management report describes the fundamental risks facing the company.

Haaksbergen, The Netherlands, 6 March 2017

J.M.A. van der Lof MBA, *Chief Executive Officer*  
E.D.H. de Lange MBA, *Chief Financial Officer*  
A.E. Dehn, *member of the Executive Board*



## Security solutions via iProtect for government agencies

Five major government agencies recently moved to a monumental building in The Hague and had the wish to optimally protect, maintain and manage the building. iProtect Security Management System from Keyprocessor was implemented, showing the integration of other security solutions from TKH companies: security cameras from Siqura, the video management system from VDG Security and the intercom system from Commend. Keyprocessor additionally installed 274 readers for optimal access control.

## TKH SHARES

### Listing

TKH's shares are listed on the Euronext Amsterdam stock exchange. TKH shares are traded on the Mid-Cap index (AMX). They are also included in the Next 150 Index created by Euronext. Options on shares in the TKH Group (ticker symbol: TKG) are listed on Euronext Liffé, the European derivatives business of Euronext. The options expire on the third Friday of the contract month and have an initial term of 1 to 9 months. Each option represents 100 TKH shares.

### TKH share structure

Ordinary shares in the company, with the exception of registered shares, are transferred by notarial deed to the Stichting Administratiekantoor TKH Group (Trust Foundation). In exchange for these shares, the Trust Foundation issues depositary receipts.

The priority shares are managed by the foundation called Stichting Prioriteit, which is comprised of company board members. This foundation may not dispose of, or pledge or otherwise encumber the shares. No special rights are attached to priority shares.

Stichting Continuïteit TKH (TKH Continuity Foundation) is granted an option to acquire protective preference shares, which would allow it, if the option were exercised, to acquire a maximum stake of 50% in the issued share capital.

On balance at year-end 2016 the issued share capital amounted to 42,821,763 ordinary shares at a par value of € 0.25, of which 42,651,075 are certified, and 4,000 priority shares with a par value of € 1. At the end of 2016 the company had 660,575 (depositary receipts of) ordinary shares in its possession. Further information on the capital structure of TKH is included in note 7 of the company only financial statements.

As a result of the shareholders having chosen to receive a stock dividend, 408,249 new (depository receipts of) ordinary shares were issued on 19 May 2016. The new (depository receipts of) ordinary shares are ranked pari passu in relation to the existing (depository receipts of) ordinary shares.

Changes in the number of (depository receipts of) ordinary shares are shown in the table below.

#### CHANGES IN THE NUMBER OF (DEPOSITARY RECEIPTS OF) ORDINARY SHARES

	2016	2015
Number of ordinary shares issued as of 1 January	42,413,514	42,027,095
Stock dividend	408,249	386,419
Number of ordinary shares issued at the end of the financial year	42,821,763	42,413,514
Shares in possession of the company at the end of the financial year	660,575	689,535
Number of outstanding shares held by third parties at end of the financial year	42,161,188	41,723,979

In the context of the stock exchange listing on the Euronext Amsterdam, the following key figures per (depository receipts of) ordinary shares apply.

#### KEY FIGURES PER (DEPOSITARY RECEIPTS OF) ORDINARY SHARES

	2016	2015
Annual turnover in shares	22,255,564	37,024,980
Highest price	€ 38.14	€ 40.50
Lowest price	€ 28.47	€ 25.35
Closing price	€ 37.59	€ 37.44
Net earnings per share	€ 2.04	€ 2.07
Dividend	€ 1.10	€ 1.10
Price/earnings ratio at end of financial year	18.5	18.1
Dividend yield on closing price	2.9%	2.9%
Market capitalization at end of financial year (x € million)	1,584.8	1,562.1

#### Disclosure of ownership and equity interests

Under the requirements for disclosing control and participation interests, any holdings in a company's issued share capital of 3% or more must be reported to the Netherlands Authority for the Financial Markets (AFM). As far as TKH is aware and on the basis of the AFM's Disclosure of Major Holdings in Listed Companies Act [Wet melding zeggenschap (Wmz)] register, the following investors have a holding of 3% or more in TKH.

#### DISCLOSURE OF OWNERSHIP AND EQUITY INTERESTS

Mandatory reporting company	Interest	Date of last report
Allianz Global Investors GmbH	4.98%	28-12-2016
ASR Nederland NV	5.11%	06-10-2008
BlackRock Inc.	3.13%	03-01-2017
Breedinvest BV	4.82%	10-03-2015
Darlin NV	5.29%	01-11-2006
Fidelity Investments	4.91%	20-11-2014
Kempen Oranje Participaties NV	3.77%	04-04-2011
Lucerne Capital Management, LLC	3.05%	05-07-2016
Navitas BV	5.75%	01-11-2006

#### Share issues

Shares are issued pursuant to a decision made by the Executive Board. The decision is subject to approval from the Supervisory Board. The scope of this authority on the part of the Executive Board is determined by resolution adopted by the General Meeting of Shareholders and is not to exceed the total number of non-outstanding shares of the authorized capital that exists now or in the future. At the General Meeting of Shareholders on 26 April 2016, this authority was extended to 26 October 2017. The power granted concerns the issue of ordinary shares and cumulative preferred financing shares -including granting rights to subscribe for shares and the restriction or preclusion of pre-emptive rights- and applies up to and including a total of ten per cent of the total nominal value of the shares issued as of the point of issue, where the issue is made in the context of general objectives, plus ten per cent of the total nominal value of the ordinary shares issued as of the point of issue, where the issue is made in the context of a merger, takeover or strategic partnership.

## KEY DATES

**2 May 2017**

Trading Update Q1 2017

**3 May 2017**

General Meeting of Shareholders

**5 May 2017**

Ex-dividend date

**8 May 2017**

Record date

**10 May 2017**

Dividend payable

**15 August 2017**

Publication half-year results 2017

**2 November 2017**

Trading Update Q3 2017

## Purchase of own shares

By virtue of a resolution by the Executive Board, under conditions outlined in the articles of association, the company can acquire, for valuable consideration, its own shares against payment, at a price equal to the par value they represent, on one hand, and the amount equal to 110% of the price on the stock exchange, on the other. The decision is subject to approval from the Supervisory Board. At the General Meeting of Shareholders on 26 April 2016, the Executive Board was granted authority for a period of 18 months from the aforementioned date to acquire shares in the company. This authority may be used in the context of share purchase for the share and option schemes among other things.

## Employee stock options and share purchase scheme

Every year, the management of TKH and its group companies are awarded employee stock options to (depository receipts of) ordinary shares in TKH, based on regular bonus agreements and achievements for the managers involved. The members of the Executive Board are not allocated any employee stock options; rather, a share scheme is in force.

## Prevention of insider trading

On July 3, 2016, the European Market Abuse Regulation ((EU) Nr. 596/2014) ('MAR') entered into force. Although the MAR itself does not require issuers to have a policy on insider trading, TKH has decided to maintain its policy for insider trading on practical reasons. TKH has a system in place to prevent directors and employees, as well as so-called 'insiders' from utilizing information available to them for insider trading. TKH has introduced an Insider regulations to comply with the MAR, with provisions applicable to the afore mentioned persons. This group has provided written consent to act in accordance with the regulations. The company secretary serves as the compliance officer and supervises the correct compliance with legislation and regulations in the field of insider trading and other compliance risks.

## Investor Relations Policy

TKH's Investor Relations Policy aims to provide stakeholders with transparency and regular communications. Our financial stakeholders include existing and potential shareholders, other financiers and their intermediaries, analysts and the media. We believe it is important to provide these stakeholders with relevant financial and other kinds of

information in a comprehensive, timely manner, in order to give them insight into the company and the industry. We maintain frequent contact with investors and analysts through such forums as road shows, conferences, company visits and one-on-one meetings. In 2016, TKH has organized a Capital Markets Day for analysts and investors. The technologies and market developments within the vertical growth markets Tire Building Industry and Industrial Machine Vision have been explained. At all presentations, meetings en conversations, we make sure to observe the applicable restrictions and take care that relevant information is provided and made available uniformly and simultaneously to all stakeholders. Through the annual report, the website and financial reporting, we pursue transparent reporting.

## Investor Relations

J.M.A. van der Lof MBA, *chairman of the Executive Board*

More information about TKH and its group companies is also available on the company website: [www.tkhgroup.com](http://www.tkhgroup.com), or via the company secretary, Ms R. Dieperink MBA.

## PRICE INDEX TKH / AMX





# STICHTING CONTINUÏTEIT TKH ('CONTINUITY FOUNDATION')

**The objective of the Stichting Continuïteit TKH ('Continuity Foundation') is to represent the interests of TKH Group NV (TKH) and all the businesses affiliated with it in such a way that these interests are guaranteed as much as possible and to resist as far as possible influences contrary to those interests which could affect the independence, continuity or identity of TKH and its businesses, as well as to do anything related or conducive to the above.**

By means of a call option, TKH has granted the Continuity Foundation the right to acquire cumulative protective preference shares in TKH up to a maximum of 50% of the amount of the other shares outstanding at the time of placement of the protective shares or 100% if the limitation on the possibility of conversion of the depository receipt of shares ends. The protective shares will not be left outstanding longer than strictly necessary. If shareholders of TKH obtain, or are on the point of obtaining, a concentration of control that is regarded as undesirable and is not in the interests of TKH and its businesses, TKH's Executive and Supervisory Boards may determine among others their position on this concentration of control, consider and explore possible alternatives and, if necessary, elaborate them.

Furthermore, TKH has granted the Continuity Foundation the right to initiate an inquiry procedure if the Continuity Foundation sees good grounds for doubting the policy and actions of TKH and believes that by invoking this right it is acting to serve the interests of TKH and its businesses.

The Continuity Foundation met once in 2016. The meeting was attended by all members of the Executive Board, who were invited by the Continuity Foundation's Executive Committee. Topics discussed by the Executive Committee during the meeting included the annually renewable standby credit agreement for the Continuity Foundation. This credit facility is

exclusively intended for the acquisition of cumulative protective preference shares, in so far as this serves the purposes of the Continuity Foundation. In addition, the financial statements of the Continuity Foundation were discussed, along with the procedures and processes for exercising the call option. The decision was also taken to increase the remuneration of the members of the board of the Continuity Foundation on the basis of market conformity.

The Schedule of Retirement was also discussed. Mr. Runderkamp retired in 2016 and was eligible for reappointment to another term. He announced timely however that, in view of his age, he was no longer available for reappointment. We are greatly indebted to Mr. Runderkamp for his expert input and constructive contributions to the Executive Committee of the Continuity Foundation. Mr. Adriaan Nühn has agreed to join the Executive Committee of the Continuity Foundation as his successor. The Executive Committee of the Continuity Foundation appointed Mr. Nühn at the meeting. Mr. Nühn joined the Executive Committee of the Continuity Foundation for a period of four years as of 1 July 2016.

The Continuity Foundation once again noted the desirability of maintaining the existing protective structure, taking into account that protection is provided by both depository receipts that have been issued for TKH's shares and by the call option granted to the Continuity Foundation for subscribing to cumulative protective preference shares.

Haaksbergen, 14 March 2017  
Stichting Continuïteit TKH  
**The Executive Committee**

## Statement of independence

The Executive Board of TKH Group NV and the Executive Committee of the Continuity Foundation state that, jointly and severally, they are of the opinion that the Continuity Foundation is a legal entity which is independent of TKH Group NV within the meaning of Section 5.71(1)(c) of the Financial Supervision Act.

Haaksbergen, 14 March 2017  
TKH Group NV  
**Executive Board**

Haaksbergen, 14 March 2017  
Stichting Continuïteit TKH  
**The Executive Committee**

## MEMBERS OF THE EXECUTIVE COMMITTEE CONTINUITY FOUNDATION

The Executive Committee of the Continuity Foundation consists of:

- Professor M.P. Nieuwe Weme, *chairman*
- Mrs. S. Drion
- Mr. A. Nühn
- Mr. L.P.E.M. van den Boom



## MEMBERS OF THE EXECUTIVE COMMITTEE TRUST FOUNDATION

The Executive Committee of the Trust Foundation currently has three independent members:

- Mr. H.L.J. Noy, *chairman*
- Professor M.W. den Boogert
- Mr. T. Tiemstra

# STICHTING ADMINISTRATIEKANTOOR TKH GROUP ('TRUST FOUNDATION')

In accordance with the provisions of Article 9 of the Trust Terms and Conditions governing the shares of TKH Group NV, as last amended on 14 May 2007, we wish to report the following.

- The activities during the year under review, 2016, related exclusively to the administration of shares for which depository receipts have been issued.
- The total nominal value of the ordinary shares of TKH Group NV held in administration amounted to € 10,662,768.75 on 31 December 2016, in exchange for which 42,651,075 depository receipts for shares with a nominal value of € 0.25 each have been issued.

The objective of Stichting Administratiekantoor TKH Group ('Trust Foundation') is to acquire and administer registered shares in the public limited company TKH Group NV which has its seat in Haaksbergen and to hold them for management in exchange for issuing exchangeable bearer

depository receipts for shares. The Trust Foundation shall exercise the rights attached to the shares in such a way that all the interests involved with the company and its enterprise are guaranteed as effectively as possible. Hollandsch Administratiekantoor BV in Amsterdam is the administrator of the Foundation.

### Meetings of the Executive Committee

The Executive Committee of the Trust Foundation met three times during the financial year.

At the meeting on 30 March 2016 the topics on the agenda of the 2016 General Meeting of Shareholders were discussed and the Executive Board of the company provided an explanation of the TKH 2015 annual report. The Trust Foundation's 2015 financial statements were also discussed, approved and subsequently adopted at the meeting. In connection with the expiry of Mr. Noy's statutory term of office, he retired in 2016 and was eligible for reappointment to another term. The vacancy was announced on the Trust Foundation's website, with holders of depository receipts being given the opportunity to put forward the names of possible candidates. There were no responses to this announcement. The Executive Committee subsequently reappointed Mr. Noy as board member of the Trust Foundation, in the position of chairman, for a period of four years commencing on 1 July 2016.

The meeting also discussed the provisions of the Dutch Corporate Governance Code affecting the issuing of depository receipts for shares. Specific attention was paid to the Trust Foundation's legal authority to deny proxies or revoke a particular proxy under certain situations prescribed by law. In this respect, it was determined that the law -in this case Section 118(a) of Book 2 of the Netherlands Civil Code- prevails over the relevant provisions of the Code. The Trust Foundation once again emphasized that depository receipt holders are granted a proxy to vote in

The independent members of the Executive Committee hold the following positions:

#### Mr. H.L.J. Noy (1951) chairman

- 2012 first appointment.
- 2020 term limit.

Mr. Noy was chairman of the Executive Board and CEO of ARCADIS NV. He now holds the following positions:

- Chairman of the Supervisory Board of Fugro NV.
- Member of the Supervisory Board of the Royal BAM Group NV.
- Associate member of the Dutch Safety Board.

#### Professor M.W. den Boogert (1943)

- 2006 first appointment.
- 2017 term limit.

Mr. Den Boogert holds the following positions:

- Professor emeritus in Securities Law, University of Groningen.
- Chair of the DSI Arbitration Committee.
- Vice-chair of Stichting Beheer SNS REAAL.

Mr Den Boogert is also a member of the executive boards of Stichting ING Aandelen and of a number of foundations with a protective role at a listed company.

#### Mr. J.S.T. Tiemstra (1952)

- 2015 first appointment.
- 2019 term limit.

Mr. Tiemstra is director/owner of 'drs. J.S.T. Tiemstra Management Services BV' and his other positions include:

- Member of the Supervisory Board of ABN AMRO NV.
- Member of the Supervisory Board of Batenburg Techniek NV.
- Member of the Supervisory Board of Royal HaskoningDHV BV.
- Member of the Supervisory Board of Bruynzeel Holding BV.
- Member of the Board of Trustees of Stichting Reinier Haga Groep.

their own right and at their own discretion in a meeting of shareholders, but that the Executive Committee will be entitled to limit, preclude or revoke that proxy under certain circumstances prescribed by law. Should a situation arise in which, by law, a proxy does not have to be furnished or a previously issued proxy can be revoked, then the Executive Committee of the Trust Foundation, acting with the utmost circumspection, will invoke its authority to deny the proxy or revoke a proxy that has already been granted. In preparation for the General Meeting of Shareholders, the Trust Foundation's Executive Committee met on 26 April 2016 and discussed the items on the agenda for the AGM. The Trust Foundation's Executive Committee decided on its preliminary voting intentions, in advance of the deliberations at the AGM itself.

At the 2016 General Meeting of Shareholders the holders of depositary receipts of shares in the capital of the company were allowed to vote independently in respect of the shares corresponding with their depositary receipts and subject to the relevant statutory provisions. At the meeting, 99.6% of the issued capital was represented. 58.9% of the holders of depositary receipts of shares requested a proxy from the Trust Foundation to vote independently on the shares in question. Prior to the meeting, 44.1% of the holders of depositary receipts gave voting instructions to the Trust Foundation. During the 2016 General Meeting of Shareholders, the Trust Foundation voted for the remaining 40.8% of the issued capital represented at the meeting. After considering all the relevant factors, the Trust Foundation voted at the AGM in favour of all of the items on the agenda which were put to a vote.

At the meeting on 27 September 2016, the Executive Board gave a presentation on the half-year figures for 2016 that had been published. The 2017 Schedule of Retirement was discussed, which indicates that Professor M.W. den Boogert is retiring and is not eligible for reappointment to another term because his statutory term limit has been reached. The ideal profile for recruiting candidates for the position of board member was also broached at the meeting, together with the procedure for filling the vacancy that had arisen. The meeting of the Executive Committee was held at VMI Holland BV in Epe (the Netherlands). After the meeting, VMI's management gave a presentation and the Trust Foundation's Executive Committee was given a tour of the production halls, with insight being provided into the technologically advanced tire building systems.

### Schedule of retirement

As per the Trust Foundation's Schedule of Retirement, Professor M.W. den Boogert will be retiring in 2017 and is not eligible for reappointment to another term because his statutory term limit has been reached. By means of its website, the Trust Foundation has given the holders of depositary receipts of shares the opportunity to put forward the names of possible candidates that fit the profile. The meeting of the Trust Foundation in March 2017 will discuss the vacancy on the Executive Committee of the Trust Foundation.

### Remuneration of the Executive Committee of the Trust Foundation

The remuneration of the Trust Foundation's independent Executive Committee members was most recently amended on 1 January 2015. The annual remuneration for the chairman is € 12,500 and € 10,000 for a board member (both excluding VAT). Additional remuneration is awarded if the Trust Foundation's Executive Committee is expected to make an extra effort. The costs of the Trust Foundation amounted to € 60,447 in 2016 (2015: € 70,273).

### Contact details

The Trust Foundation has its office at the company's address. The Trust Foundation can also be contacted via its website at: [www.stichting-administratiekantoorstk.com](http://www.stichting-administratiekantoorstk.com) or via email: [stak@tkhgroup.com](mailto:stak@tkhgroup.com).

Haaksbergen, 14 March 2017  
Stichting Administratiekantoor TKH Group

**The Executive Committee**

### Statement of independence

The Executive Board of TKH Group NV and the Executive Committee of the Trust Foundation hereby state that, jointly and severally, they are of the opinion that the Trust Foundation is a legal entity which is independent of TKH Group NV within the meaning of Section 5.71(1)(d) of the Financial Supervision Act.

Haaksbergen, 14 March 2017  
TKH Group NV  
**Executive Board**

Haaksbergen, 14 March 2017  
Stichting Administratiekantoor TKH Group  
**The Executive Committee**





# TKH TECHNOLOGIES GUARANTEE EFFICIENCY AND SAFETY

At TKH, the four core technologies, *vision & security, communication, connectivity and manufacturing systems*, form the solid foundations for a broad range of innovative solutions that guarantee our customers and users of our technologies the highest possible efficiency and safety. We are market leader when it comes to such trends as robotization, automation and industry 4.0.



TKH has defined seven vertical growth markets in which an above average growth is expected because of important trends, which lead to a high priority for investment in TKH's core technologies. Thanks to our continuous links with our customers, we are well informed about the latest developments on the market. As a result, we are aware of changes in the market, the needs of our customers, and the demands imposed in providing the perfect solution. Nonetheless, we still go one step further. Based on our technologies and innovative total solutions, we not only guarantee that our customers are successful, but also that they generate a return on their investments. In other words, we offer them installation efficiency, lower material costs, cost efficiency, higher capacity utilization and improved safety levels. We do not only promote this, we can also prove it.



In this section we explain per vertical growth market what our distinguished position is as technology company and we support it with facts & figures.





# FIBRE OPTIC NETWORKS

Information and communication technology needs high-speed fibre optic networks

The rise of information and communication technology is having a major impact in shaping our lives and creating demand for high-speed fibre optic networks capable of processing ever larger streams of data. This important market segment for TKH is constantly changing and is also being driven by other developments in the consumer market, such as e-learning, gaming and social media. The expanding use of information and communication technology is causing explosive growth in the demand for bandwidth.



# GROWTH DRIVERS

- Data use through the impact of information and communication technology on the way we live our lives continues to grow and leads to a strong, increasing demand for broadband.
- Internet has become a basic need, like gas, water and electricity.
- Developments such as the 'Internet of Things', 'Industry 4.0' and 'Internet of Vehicles' will require a high (mobile) internet speed - emergence of 5G internet.
- 24-hour availability is becoming more established and accepted.
- Several European countries have announced investment plans for rollout of FttH projects to meet the strong increasing need for bandwidth.

# SOLUTIONS

- Highly efficient design for fibre optic network systems for Ftt(X) applications.
- Simple and efficient installation of the networks by purposive design of components.
- Reducing the number of components in a network - approximately 30% plug & play installation by pre-assembly.
- Remote management and security of PoPs (Point of Presence) by Apollo security technology.
- Semi-automatic optical distribution frame (SAODF) in PoPs for remote control of the network configuration.

3%



HIGHER MARKET VALUE HOUSES WHEN EQUIPPED WITH FIBRE OPTIC CONNECTION.



50%



REDUCTION MATERIAL COSTS IN FTTH NETWORKS THROUGH SMART INNOVATIONS.

# RESULTS

- High utilization of fibre optic network and favorable ROI.
- Ease of installation.
- High customer satisfaction.
- Optimization of installation and maintenance (time, cost).
- Optimization Total Cost of Ownership.
- Future-proof investments in order to increase demand for 'Internet of Things' application.
- Future-proof network (SDN ready).

50%



LOWER CONNECTION COSTS PER HOUSE BY ACE SOLUTION.

80%



SAVINGS LABOUR COSTS BY SAODF SOLUTION.

50%



LOWER INSTALLATION COSTS PER FIBRE BY MINIATURIZATION.

90%



SAVING ON TRANSPORT COSTS AND CO<sub>2</sub> REDUCTION BY SAODF SOLUTION.



### Internet as a basic need

Internet has now become a basic service, like gas, water and electricity. Ultra-modern fibre optic networks enable us to use all sorts of devices in both the business and private environment, but also to receive and transmit information quickly. Security is better guaranteed because the networks make security systems faster and more reliable. But a new industrial revolution, known as Industry 4.0, is also underway, with more and more industrial machines being data-driven nowadays. The trend towards automation and robotization is irreversible, if only considered from the perspective of operational efficiency and reducing costs. The demand for bandwidth is also growing, particularly as a result of the intensive use of cloud computing and the accompanying explosive growth in the number of data centers around the world.

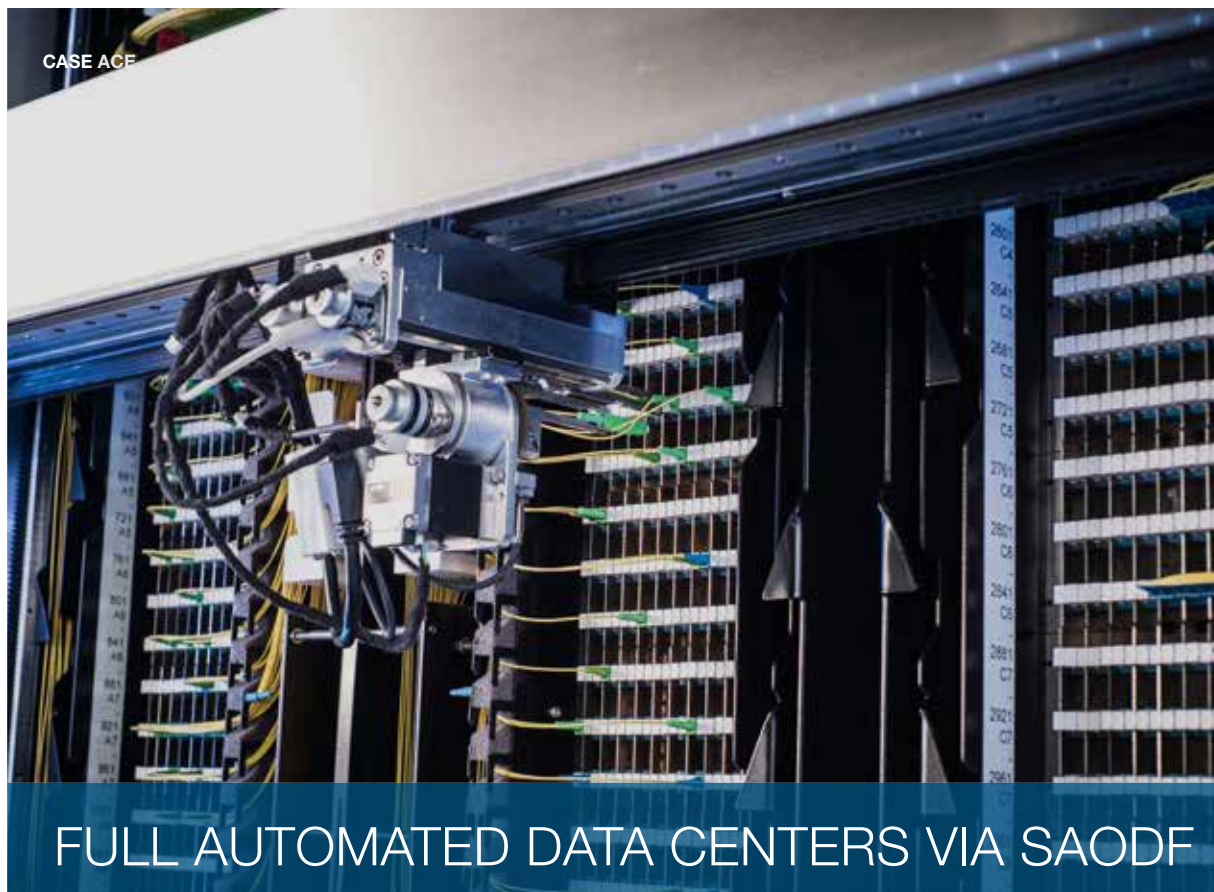
### Disruptive by smart design

TKH therefore focuses on the numerous opportunities that this vertical growth market offers its innovative communication, vision & security and connectivity technologies. TKH's fibre optic networks are disruptive by smart design, offering customers and partners optimal efficiency whatever the application, above or below the ground.

The effectiveness of the cable solutions lies in features such as plug-and-play installation, being always bespoke and always complete. Nothing is left to chance during the construction and production of the fibre optic networks to ensure that they can be installed as efficiently as possible, in the shortest possible time and at the lowest possible cost. Key features of TKH networks are quality and a long economic life.

### Huge variation

In the domain of its core technology 'connectivity', TKH designs, produces and supplies a wide range of innovative cable systems, including optical fibre cables for complete communication networks. As in other areas of the TKH's activities, innovation starts with knowledge of the market, anticipating future demand and, above all, listening to the customer. Accordingly, solutions of every kind are designed according to the precise specifications of the customer.



**The possibilities that robotization offers for the companies at TKH are apparent from its SAODF solution, the so-called semi-automatic, optic distribution frame that is installed in a so called Points of Presence (PoP).**

The SAODF solution is both innovative and unique and reflects TKH's business strategy of focusing on vision-technology-driven systems. With the SAODF solution, short optical fibre cables with a connector at each end, also known as jumpers, can be installed or removed remotely in a PoP,

without on-site human intervention. The robotic arm, fitted with vision sensors, does the work.

With the SAODF solution, any bandwidth can be offered according to the precise requirements and needs of site managers and operators in data centers. SAODF optimizes the management of the customer's databases, further enhancing the day-to-day OPEX. It allows for easy switching in the event of a break in a cable or defective equipment. Not least, it provides a solution to the long-cherished desire for totally automated data centers.



**Efficiency in installation**

When building an fibre optic network system, all the necessary accessories such as connectors and sleeves, are incorporated at the earliest possible stage so that installation can proceed as efficiently as possible. The aim is always to make things easier for customers, since the installation costs account for most of the total cost of creating an fibre optic network. The efficiency with which TKH's fibre optic network solutions can be installed guarantees customers a high return on their investment. But TKH goes a step further. We provide product and installation training and our Field Support Engineers optionally support in rolling out projects.

**PoPs totally secured**

Every fibre optic network uses local stations, so-called Points of Presence (PoP). A PoP contains very expensive equipment, is unmanned and has inadequate security. To remedy that, TKH has developed the Apollo, an innovative total solution based on technologies from the successful iProtect Security Management System. A smart combination of security disciplines in a single reliable platform. This solution also yields enormous efficiency gains and significant cost-savings for network managers.

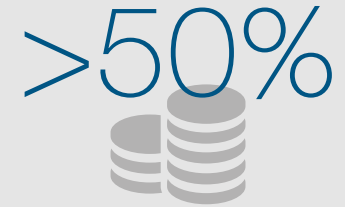
The fact is, the Apollo not only safeguards the PoP, but also manages access to it and monitors environmental factors such as humidity and temperature. Plug-and-play, ease of use and remote operation. If a fault is detected, the system automatically generates a warning in the central control room and the PoP's owner can swiftly respond. Unmistakably a TKH concept, because every aspect of an fibre optic network has been considered to ensure that the ultimate solution is the most effective and efficient for the customer.

## A GOOD LOGISTIC CONCEPT MAKES THE DIFFERENCE

The ACE fibre optic network system of TKH subsidiary TKF guarantees the best solution for the design and construction of fibre optic networks. When choosing a fibre network concept, the focus is often on a sophisticated design and high-quality components. Once designed and planned as a project, the roll out in the field becomes the next challenge, especially in the rural areas.

An essential part of a successful roll out of a project is the in-time delivery of materials to the right location. For some years now, TKF offers extensive services. The components are directly supplied to locations which are indicated by the customer. It can be in the field, on third-party sites or in a central warehouse. The delivery is done by own employees with knowledge of the ACE fibre optic network solution.

With this logistic concept, it is also possible to provide only those components at the locations that will actually be needed. Only the used materials will be charged (consignment stock). This declines the working capital of our customers considerably. Based on agreed parameters, the project progress is monitored by our employees, supplied and adapted when necessary. The success of a project is not only depending on a good design and concept choice, but also very much depends on a successful roll out in combination with a smart logistic concept.



SAVING ON WORKING CAPITAL FOR CUSTOMERS.



REDUCTION OPERATIONAL COSTS BY LOGISTIC CONCEPT.



# CARE

## Improving quality of life and efficiency

The demand for new and innovative solutions is growing in the care sector. For the intramural care like hospitals, nursing homes or homes for disabled peoples- as well as for extramural care like home care. Solutions that allow care to be delivered more efficiently and enable people to continue living independently for longer. And with the ageing populations, that demand is only going to increase. For many years now, TKH has been providing reliable solutions for the intramural and extramural care sectors in the areas of observation, monitoring and visual communication, as well as alarm systems and video care, to make care more efficient, reliable and user friendly.



# GROWTH DRIVERS

- Life expectancy is continually increasing and healthcare spending will increase sharply due to more and better, but also more expensive care – therefore, the demand for technologies for care solutions is increasing.
- Changing healthcare funding: shifting from the government to the institutions and healthcare insurers.
- Innovations in the field of domotics, diagnostics, e-health and self-testing for prevention and screening, are providing new businesses in the sector.
- Shortage of skilled workers.
- Informal caregivers play an important role and, together with the client and the healthcare professionals, are equal partners - technology support is necessary for the required information exchange.
- The demand for medicines (volume) has been growing as a result of demographic developments, while the cost of care will have to be lowered.
- Increase central task of preparing medicines in a remote location - acceptance of robotics in pharmacy wholesale.

# SOLUTIONS

- Flexible and intelligent care processes with associated systems.
- High efficiency through 'situational awareness'.
- Increased safety and security through smart and reliable sensors.
- Transforming intramural care systems to wireless home care applications.
- Optimization of remotely hosted management processes through voice / audio integration and predictive data management.
- Productive and reliable automated systems for medicine packaging with complete track & trace process.
- Delivering solutions in accordance with the guidelines set by the government.

50%



ELDERLY PEOPLE LIVE LONGER INDEPENDENTLY VIA CARE TECHNOLOGY.



20 MINUTES



TO TRANSFER A STANDARD HOME INTO COMPLETE CARE HOME.

# RESULTS

- Optimized care processes with a high degree of efficiency of qualified healthcare provision.
- Increased customer satisfaction - both caregivers and patients / clients.
- Faster client-based installation of healthcare technology.
- Reduced risks of automated processes.
- Higher safety of healthy critical situations.
- Beneficial effects on health spending.
- Significant cost savings in health care.
- Significant increase patient safety and medication loyalty.
- More time available for health care providers and pharmacists to spend time directly to the care-related work.

20%



HIGHER EFFICIENCY – MORE TIME TO SPEND FOR CARE.

40%



MORE HOUSES ARE CONNECTED ON CARE TECHNOLOGY.

30%



HIGHER ALERT ACCURACY- EXCLUSION OF FALSE ALARMS.

20%



COST EFFICIENCY THROUGH CARE TECHNOLOGY.





With its solutions for the Care vertical growth market, TKH improves the quality of life in care institutions and increases efficiency in the sector. TKH provides solutions for hospitals, institutions for disabled people, mental healthcare institutions and for houses. But TKH has also caused a revolution in the pharmaceutical industry with INDIVION, our fully automated system for packing and distributing medicines.

#### VieDome – a platform for ‘remote care’

VieDome’ is the brand name of TKH’s innovative response to the demand for ‘remote care’. Centrally monitored by professional care providers, elderly people can continue living longer at home. TKH manages the whole process within the VieDome platform: from the development and production, the system’s installation, service and maintenance. It is a fully IP based, integrated communication, observation, care and security system. With VieDome a regular house or apartment can be transformed into a care home in just 20 minutes, regardless of the connections or infrastructure in the home. We make every home as a care home, which features’ remote care solutions that the user needs to live longer independently.

#### In-depth knowledge of the healthcare market

Cure & Care is a highly specialized market. Roughly speaking, the Cure segment covers the aspects of healthcare relating to the treatment of illness. It generally refers to temporary care provided in hospitals and short-stay mental health institutions, pharmacies, etc. Care refers to nursing and caring for people, sometimes briefly, but frequently for long periods, for example nursing homes, care of disabled people, etc. With its years of experience in half of the hospitals in the Netherlands, TKH is a constructive partner for today’s enterprising care managers. TKH understands the needs of its customers and advises them on the basis of its in-depth knowledge of the healthcare market and the sector’s business processes. Knowledge and experience that it has also gained in other vertical markets and which also resulted in effective total solutions for hospitals and other care institutions.



## SAFETY & EFFICIENCY AT THE ELISABETH-TWEESTEDEN HOSPITAL

**At the beginning of 2016, the St. Elisabeth Hospital and the TweeSteden Hospital were merged to form the Elisabeth-TweeSteden Hospital (Tilburg/Waalwijk – the Netherlands).**

In order to satisfy higher efficiency and safety requirements, the operating rooms in Tilburg were fully renovated. A specialized project for TKH subsidiaries Keyprocessor and Commend. Commend delivered its innovative clean room intercom system, which is equipped with a self-sterilizing front and enables hands-free

communication. The system guarantees 24-hour voice communication, has an audio installation and an interface to the existing telephone system. The desired installation efficiency could be achieved through an integrated intercom system with no less than 35 plug-and-play intercom stations in the operating rooms. The rooms were dealt with in phases so that they could continue to function as usual without any hindrance. By testing the system live before implementation, risks were eliminated at an early stage.



## ‘INDIVION’ A REVOLUTION IN MEDICINE DISTRIBUTION

Demographic trends, particularly the growing and ageing population, have been driving up demand for medicines for years. In the meantime, it is essential that patients take their medicine in the right doses and at the right times every day. A problem is that it still takes too long and costs too much for pharmacies to sort and deliver the necessary medicines to patients every day, and there is always a risk of mistakes in the process.

INDIVION from TKH subsidiary VMI is a solution that responds to the demand for greater efficiency and lower costs in pharmacies. INDIVION is a revolutionary, fully automated medicine packing system for the pharmaceutical market. The system works without human intervention and with the contents of the medicine pouches being controlled entirely by our vision systems, all with the aim of guaranteeing absolute safety and reliability. The INDIVION is now capable of producing up to 170 pouches with medicines every minute.

### Careful registration

As medicines are being packed into pouches (also called blisters), residues of the medicines are normally released in the form of dust, causing contamination of medicines that are packed later. The result is that different medicines can become mixed with potentially harmful consequences. INDIVION addresses that problem by minimizing the fall height of medicines in the system. The fall height in the INDIVION is just 20 centimetres, compared with an average fall height in the

market of one metre. In the INDIVION, the pills drop from so-called canisters, each of which is unique and can only take pills of the correct size. To prevent mistakes, every pill is also uniquely registered using specially developed software. Each of the canisters in the INDIVION also has an RFID chip which carries information from which it is possible to ascertain which medicines are or should be in the machine and precisely where they should be.

In the traditional machines the pills fall into a hopper that leads to the opening of the pouches that have to be filled. The traditional machines have only one hopper that all of the medicines pass through, creating a high risk of contamination. The INDIVION has more than 70 patented hoppers, in a sort of horizontal revolving arrangement. This solution was carefully thought out with the client and patient’s satisfaction in mind: to make the operation quick, efficient and reliable and almost entirely eliminate the risk of contamination.

0,000000009%



FAILURE MEDICINE PACKAGE VIA INDIVION.

93%



PATIENTS CONFIRM THAT THIS WAY OF INTAKE OF MEDICINE HELPS.

80%



TIME SAVING PER MEDICINE PACKAGE PER PATIENT.

100%



TRACEABILITY.



### Cost control

Hospitals have to stand out in terms of hospitality and customer-friendliness, but also have to operate more efficiently and reduce costs. TKH's care solutions provide information and support for the effective management of the primary processes in hospitals. For example, by recording the movements, routing and utilization rates of important equipment so that the necessary interventions can be made promptly data and actions that are crucial for keeping down costs and making patients as comfortable as possible.

TKH supplies security systems, for example, to manage access for people, vehicles and goods. Observation, security, image communication and telemonitoring can all be managed with one single solution. In short, with our innovative care technology and tailored software solutions, customers can save money while simultaneously enhancing their reputation. Because what ultimately counts is that patients are safe and receive the best possible care.



## FRIENDLY CARE THROUGH FOKUS

**Fokus makes it possible to enjoy freedom and live normally with a physical disability. The combination of a modified home with 24-hour, on-call service enables people with a physical disability to take and retain control of their own lives. With Fokus, the client decides when, where and how he wants ADL (Ambulatory Services).**

Fokus operates throughout the Netherlands. There are approximately 1,400 Fokus homes in almost a hundred Fokus projects. Through its subsidiaries Isolectra and Cruxin, TKH has been looking after

Fokus' alarm and communication facilities for more than 30 years – standard in every home. The biggest advantage of this standardization appeared only recently. Because we log every emergency call and its status, it became relatively easy to automate the care administration by interlinking access control data, emergency call data and care registration. By doing this, Fokus not only eliminated administration work for the ADL workers but, much more importantly, gave Fokus clients a friendlier experience of their care. “Recently, they’ve paid us much more attention. They’re no longer glancing at their watch.”

# TUNNEL & INFRA

## Safety and permanent availability

In a densely populated country there is only limited space for people to live and work and for recreation and mobility. With a growing population, there will be even more traffic and the available space will become even scarcer in the coming years. Every economy depends on a properly functioning infrastructure, which means that the available space has to be used smartly and efficiently. A lot has changed in the method of tendering for projects to build infrastructure such as tunnels, locks, bridges and airports. With the stricter rules under European legislation, the emphasis has shifted mainly to safety and permanent availability. In light of that, TKH has developed an unique approach with which we have quickly secured a position as the market leader in providing integrated solutions for infrastructure projects in our vertical growth market Tunnel & Infra.



# GROWTH DRIVERS

- In Europe, investment in tunnel technology for new and existing tunnels are planned for the coming years.
- Due to strict legislation and regulations in the field of security, ever increasing demands are made on the technical equipment.
- Increasing demand for technologies in order to comply with strict requirements: evacuation - communication - detection - identification - security.
- Principals are shifting responsibilities to the contractors - formation of alliances between principals and contractor so that parties have a common interest in cost control.
- Availability infrastructure -tunnels, airfields and roads- need to increase because of less and efficient maintenance.



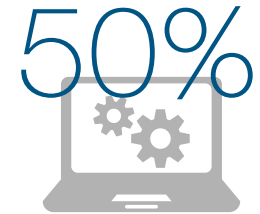
REDUCTION TOTAL COST OF OWNERSHIP.



IMPROVED TRAFFIC FLOW THROUGH TECHNOLOGIES.

# RESULTS

- Improved safety and availability of infrastructure.
- Pro-active maintenance planning.
- Optimization of installation and maintenance (time and costs).
- Reduction Total Cost of Ownership.
- Less environmental impact through efficiency of traffic flow.
- A high level of customer satisfaction.
- Compliance with (HSE) standards and regulations.
- Ease of installation.



INSTALLATION EFFICIENCY THROUGH PLUG & PLAY COMPONENTS.

# SOLUTIONS

- Smart guidance and information management.
- Remotely controlled management processes by means of voice-audio integration and data management.
- Optimum maintenance and asset management.
- Seamless integration of systems.
- Easy, efficient installation of communications, safety & security and connectivity systems.
- Technology which meets the highest requirements with respect to the European directives on safety.



IMPROVED VOICE INTELLIGIBILITY ABOVE STANDARD.



NEED FOR PERMANENT ROADBLOCK MINIMIZED.



REPAIR OF CAMERA HARDWARE.



We possess all the necessary specialist knowledge about tunnels and roads, bridges and locks, airports and airfields. Our technologies are also used to manage the movement of large numbers of travelers safely and efficiently.

### TKH leads the way with its proven technology

Availability and efficient maintenance of systems are factors that TKH already takes into account when it is designing a project. Less maintenance represents financial savings and less disruption for the users in the long term. TKH uses only the most innovative and high-grade technologies and high-end solutions based on 'proven technology'. Every project has its own specific characteristics and is therefore unique. The specifications are always defined in close consultation with our customers. Our core technologies are usually as invisible as they are essential in our solutions.

TKH's priority in infrastructure projects is always to find innovative solutions that guarantee safety and efficiency. We supply systems with fully integrated video, voice and sound that continue to function even in extreme conditions, such as extreme heat or cold. All our solutions are guaranteed to comply with the rules and regulations so that tunnels can be opened safely and on time.

### Safely from A to B

The continuous monitoring of traffic and public transport is a bigger challenge than many people might think. The priority is of course to prevent accidents, but incidents can still occur. A lorry might break down or shed its load on a motorway and motorists driving against the flow of traffic can form a serious threat, not to mention a fire breaking out in a tunnel. Such incidents demand immediate, efficient and effective intervention.



## IMPROVED SAFETY IN THE HENNDORF TUNNEL IN SALZBURG

**Lack of daylight, poor traffic conditions and no mobile telephony reception are common problems in tunnels. Yet anyone who wishes to call for help in a tunnel must be able to count on fully reliable communication in emergency situations.**

A perfect example of how Commend deals with this is the bypass tunnel near the town of Henndorf am Wallersee in the Austrian province of Salzburg. 20 Commend emergency call stations and 48 public address loudspeakers have been installed along this 2 km road through the mountains. The loudspeakers provide loud, interference-free voice

reproduction allowing clear instructions to be given to road-users and emergency services.

But Commend contributes even more to safety in the Henndorf tunnel thanks to its central control room solution. Here, special mobile radio channels are used to establish direct contact with emergency services. This very easy-to-use system enables control of all safety facilities and keeps emergency services fully informed at all times of what is going on in the entire tunnel. In short, Commend has provided everything needed in the area of safety and communications, making the Henndorf tunnel one of the safest in Austria.





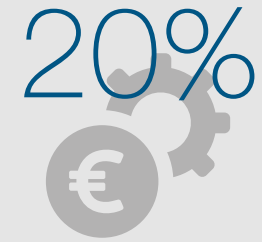
## A HIGH LEVEL OF SAFETY AND EFFICIENCY WITH CEDD

**CEDD is an absolute masterpiece of technology and has been developed by TKH subsidiary USE System Engineering. CEDD is a very innovative, advanced connectivity technology for contactless energy and data distribution. The transport of energy and data is combined in a single cable system, a base station and contactless connection points. This makes it possible to easily install or replace lighting in a tunnel, roadway, runway or helicopter platform without making a physical electrical contact with a power or data cable.**

The lighting systems for airport runways have traditionally been powered by cables. The cables are enclosed in ducts along the runways, with a cable running under the runway from the ducts to each lamp via a transformer. Approximately 150 kilometres of cable are required to light a runway. The more cabling and parts that are needed, the greater the risk of a fault. The ducts are also quite sensitive to humidity and require a lot of maintenance. When maintenance has to be carried out on the ducts, the runway has to be shut down altogether.

CEDD prevent such a situation. It is a solution for contact-free distribution of energy and data. A single cable is laid that is capable of transporting both energy and data. A number of light fittings can be attached to it. It is a contact-free system, so no

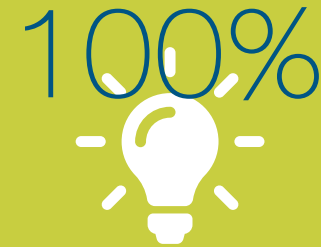
open electric contact has to be made with the cable when it is being laid or replaced, which means that a high degree of safety is established when the system is installed. Another advantage of the CEDD system is that the humidity-sensitive ducts are no longer needed, which strongly reduces the system's vulnerability to faults and maintenance requirements. There are also enormous energy savings. The average length of a runway is three to four kilometres and every runway has around 1,500 lights. The system is also able to deliver comprehensive information about the need for preventive maintenance, for example to the lamp itself. With a higher degree of reliability, more efficient use of energy and less and easier maintenance, the Total Cost of Ownership is reduced for every operator.



REDUCTION IN CAPEX.



REDUCTION IN OPEX.



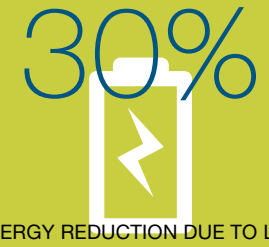
CONTROL OF INDIVIDUAL DEVICES.



INSTALLATION EFFICIENCY.



HIGHER UTILIZATION RATE PER RUNWAY.



ENERGY REDUCTION DUE TO LOW VOLTAGE AND CONTACTLESS ELECTRICAL DISTRIBUTION.



INSTALLATION SAFETY.



EFFICIENCY DUE TO BETTER DIRECTING OF AIR-TRAFFIC AT THE AIRPORT.

CASE CRUXIN

## AVENUE2 IN THE HIGHEST STATE OF READINESS

**The 'Koning Willem Alexander Tunnel' in Maastricht has been designed to handle up to 150,000 vehicles per day, although there are still 'only' about 50,000 per day at the moment. So there is plenty of room for growth.**

The tunnel leads to an 80% reduction in the amount of traffic above ground in Maastricht. As well as increasing efficiency, this also hugely improves air-quality and quality of life in the city, of course.

These achievements could not have been realized without technology. TKH subsidiary Cruxin, the system integrator of TKH technology for Tunnel & Infra, was responsible for the design, delivery and implementation of the communications and safety systems for this project. These systems are part of all traffic and tunnel technical installations and consist of CCTV, intercom, emergency telephony, high frequency and C2000 systems, developed and produced by TKH companies.

Our 217 cameras ensure that every square centimetre of the tunnel can be viewed; our video software ensures that all camera images are continuously recorded; and the traffic control room can review images and send them on-demand to the emergency services. Our emergency telephony and intercom systems ensure that a live connection can be established directly with the traffic control room from each of almost 300 emergency call stations. Via our high-frequency installation, relevant evacuation information can be transmitted to car radios, while 200 loudspeakers make it possible to provide drivers with relevant evacuation information in the event of a calamity.

To maximize the availability of the safety installations, all our systems are fully redundant and designed to be available at all times. The safety installations are the heart of the tunnel – without them, the tunnel would simply not be allowed to be open.

TKH's camera solutions provide an answer in even the most complex infrastructures. With our core technology 'vision & security', we can supply a wide variety of camera systems that provide spectacularly clear images that miss nothing, even when there is little light. Incidents on the road are always reported immediately to the central control room with an alarm so that decisions can be made promptly and efficiently.

TKH's safety and security systems can also automatically detect incidents so that the flow of traffic can then be properly managed from the central control room. Our advanced video contact analysis system recognizes car license plate numbers, objects and faces. Our vandal-proof cameras are durable and save a lot on the costs of unnecessary maintenance.

### TKH solutions help prevent incidents

Even more sensitive than monitoring and managing traffic flows on the road are the safety and efficiency at airports for planes, passengers and buildings. Any incident forces operations to be stopped immediately for at least an hour, which can quickly lead to the cancellation of 20 to 30 flights with accompanying delays and high costs. Here too, TKH's video surveillance solutions help to identify, and where possible prevent incidents and potential delays or risks. A combination of optical and thermal cameras with extremely sensitive sensors monitor every corner of an airport and automatically generate alarms or identify intruders. All in the highest possible resolution.

# PARKING

## The parking market is demanding innovative, efficient solutions

The parking market is dynamic. Parking is a link in the mobility chain and, with an ever-growing number of vehicles on the road, the parking market is demanding innovative, efficient solutions. Ticket dispensers will disappear; in the near future, everyone will pay with a card or smart phone. More attention will be paid to the design and layout of public parking garages, which will mostly focus on preventing feelings of insecurity. In the future, parking will not be regarded as separate from other activities, but as a linking element. It will be part of an accessibility package in which a parking space will be booked in advance together with transport from and to the car park and a discount voucher for the local museum or for a cup of coffee in a café or restaurant.





# GROWTH DRIVERS

- Revenue from car parks is under pressure due to decline of traffic flow - need to reduce OPEX.
- Demand for providing a visual dashboard with parking information - managers and car park operators can react faster and more efficient to current situations.
- Increase capacity utilization and revenues by means of differentiated parking fee.
- Demand for comfort and convenience for parkers.
- Use of technologies to improve safety, access and payment possibilities.
- Emergence of demand for frictionless parking for an optimal parking experience.

4-7%



HIGHER OCCUPANCY.



10-15%



HIGHER PARKING REVENUES.

# RESULTS

- Optimized value creation for the parking real estate.
- Optimized Total Cost of Ownership and asset management.
- Higher customer satisfaction.
- Less environmental impact.
- Predictive maintenance.



# SOLUTIONS

- Smart guidance and information management.
- Remotely controlled management processes using voice/audio integration and data management.
- Camera sensors per parking space with intelligent software support 'frictionless' parking for the optimum parking experience.
- Optimum maintenance and asset management.
- Seamless integration of systems.

10%



LESS TOTAL COST OF OWNERSHIP.



50%



HIGHER EFFICIENCY USING REMOTE MANAGEMENT CONTROL CENTRE.

1%



INCREASE IN VALUE OF THE REAL ESTATE.

70%



ENERGY SAVINGS VIA BB-LEDLIGHTPIPE.





TKH's systems to provide the ultimate in efficiency, safety and security in parking garages and public car parks in its vertical growth market Parking are a perfect illustration of how it combines two of its strong core technologies -vision & security and communication- to produce innovative solutions. Everything is aimed at creating efficiency, reducing costs and generating an effective return on investment for investors in car parks and their managers and operators. TKH's parking solutions are used in more than 20 countries and make parking a pleasant experience, with comfort and convenience and a high level of security, for every motorist.

TKH is developing and producing a new generation of innovative parking solutions with a worldwide reputation. The solutions range from video analysis for the comprehensive monitoring of car parks and ensuring the smooth flow of traffic in garages, to fully integrated access control, intercom and CCTV systems, as well as license plate registration.

The key to TKH's parking solutions is the highly advanced software that controls all functions and generates all of the relevant data that the operator and manager need to run their operations efficiently and keep costs as low as possible. The manager, for example, is always aware of the occupancy rate and the most popular parking spaces. Motorists will be happy to pay more for one of those popular spaces if the car park is very busy. The differentiation of the fees is easy to enter in the system software.

### Unique identification of an empty space

'Where can I leave my car' is a common cry heard from stressed-out motorists struggling to find a space as they drive from floor to floor in a parking garage without any directions.

TKH's intelligent guidance systems shorten the search dramatically and eliminate the frustration. They offer motorists a high-tech experience in their hunt for the nearest free parking space. The parking guidance system is a combination of BB-LEDlightpipes® and the guidance system based on Park Assist's camera-sensor technology. As well as saving time for motorists by making it easier to find an empty space, the system curbs



## 'FLINQ' FOR THE SCENTRE GROUP'S NATIONAL OPERATIONS CENTER

**TKH subsidiary Park Assist was asked to analyze the needs of the Scentre Group's (Westfield Australia) Car Park National Operations Centre ('NOC') and then to design a centralized solution.**

With 43 shopping centres throughout Australia, the Scentre Group saw possibilities for centralizing parking activities in order to offer a consistently better customer experience in all of their parking garages. The local character would have to be retained but, at the same time, a more economic

service model would have to be enabled; as well as a centralized use of resources to improve the support of local employees. Their NOC is a custom-built facility covering 430 m<sup>2</sup> accommodating operators who will answer queries from customers in all parking garages.

As the system integrator, Park Assist, aided by TKH subsidiaries Flexposure and Commend, is implementing a single operational interface for the operators. This will integrate technologies from multiple different locations, such as PARC, CCTV and intercom systems.

CO<sub>2</sub> emissions by reducing the volume of unnecessary traffic in the garage by guiding the motorists to a free space as quickly as possible. This is accomplished by installing a camera between every two parking spaces that sends signals via a coloured LED lamp – red for occupied, green for empty – that quickly guide the motorist to the first free space. Other colours could also be used, for example to indicate spaces for disabled drivers. The lighting system is fully modular and requires little or no maintenance. The lights can easily be dimmed when the occupancy rate is relatively low, which can generate savings of up to 70% in electricity consumption.

The TKH parking solutions offer more than just the comfort of quick and convenient parking. The smart sensors, the brain in the cameras, also register license plates and so enable motorists to find their vehicle quickly using a special app developed by TKH for the smart phone. The motorist only has to enter his or her car license plate number and the position of the car is immediately shown on the screen. The facility is also available on a video terminal at the kiosk where the driver has to pay. It has been found that, particularly in large car parks, more than 55% of motorists cannot immediately find their car and make grateful use of the parking system.

**Optimal parking experience**

TKH's parking solutions delivers an optimal parking experience. A good car parking is the advertisement of the facility or location for visitors. Parking is annoying when it causes the visitor to become frustrated. We prevent that frustration by making parking easy and removing any barriers, literal or metaphorical. This maximizes the efficiency and the ROI for the operator and creates the greatest possible satisfaction for the motorist, who is then encouraged to return to the same car park again.

Also effective and efficient is the solution that TKH offers to enable operators of parking garages to operate the systems of all the car parks in a network centrally, regardless of where they are, or even what country they are in. On a single, integrated web-based software platform with a single user interface, information is generated from the entrance and the exit and within the garage itself about all the systems in the garage. Reports are sent via our intercom system in the parking garage to the central control room, where the situation can be monitored remotely using the camera systems and the correct response can be organized. The operators in the central control room can also intervene whenever an incident or emergency occurs in a garage. The emergency services can be called directly from the central control room. The platform constitutes TKH's unique 'software bridge' between the central control room and its operators and the local car parks.

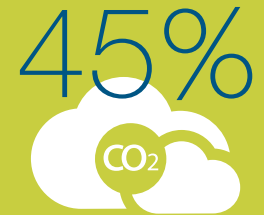


## TKH'S PARKING SOLUTIONS OPTIMIZE USE AND MANAGEMENT OF CAR PARKS

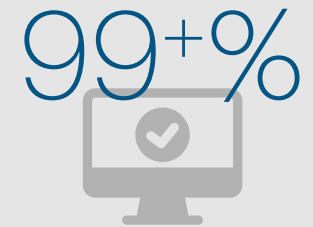
TKH's parking solutions generate a lot of useful and essential data that managers, operators and investors need to optimize the use and management of the car park. For example, the manager of the parking garage receives information about aspects such as the occupancy rate and whether or not it is time to consider expanding.

The data can also be used to identify peak and off-peak periods and to help operators decide on the best time to carry out maintenance in the garage. By structurally associate variables with the time at which an act or event occurs, 'profiles' for maintenance can be predicted. This not only provides efficiency advantages but also huge cost savings because the garages do not need to be closed unexpectedly.

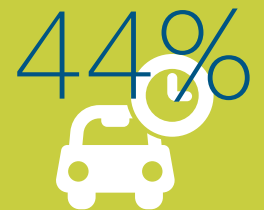
Historical research has also shown that TKH's parking guidance system can reduce the time taken to find an empty space by 44%, especially during busy periods. During the study it was found that the number of motorists that had to search for longer than five minutes had been reduced by 12%. Overall, the search time was always substantially shorter.



LESS CO<sub>2</sub> EMISSIONS THROUGH PARKING EFFICIENCY.



ACCURACY RATE.



LESS TIME SPENDING SEARCHING FOR AN EMPTY SPACE IN PEAK PERIODS.

# MARINE & OFFSHORE

## Unique through innovation and sustainability

In the Marine sector, European shipyards primarily focus on the construction of specialist ships and vessels, such as offshore ships, luxury yachts and cruise ships. Furthermore, shipping volumes are expected to double over the next 15 years.

The Offshore industry often faces challenging weather conditions and has to meet very stringent safety requirements. Companies that have grown wealthy on the extraction of fossil fuels are now focusing more specifically on developing sustainable alternatives, such as offshore wind energy and tidal energy. These developments ask for smart technologies in the field of connectivity, vision & security and communication.





# GROWTH DRIVERS

- Large increase global generated power by wind power.
- Demand for larger cargo ships and need for efficient external site management.
- Increase in the building of quality ships, cruise liners and luxury yachts.
- Increase of remote control and secure of unmanned operations on platforms.
- A lot of attention for safety on platforms via special 'zone' certification.
- Modification of supply chain due to limited storage capacity on shipyards and platforms and high cost of downtime.
- High demands on system availability under various environmental conditions, such as extreme temperatures, humidity, oil, salt water.



50%

INSTALLATION EFFICIENCY THROUGH LABELING CABLE SYSTEMS.

50%



GREATER EFFICIENCY WITH REMOTE MANAGEMENT CONTROL CENTRE.

# RESULTS

- Higher safety levels.
- Compliance with (HSE) standards and regulations.
- Pro-active maintenance planning.
- Optimization of installation and maintenance (time, costs).
- Optimization of Total Cost of Ownership.
- Ease of installation.
- High level of customer satisfaction.
- Decrease of cost as a result of purchase efficiency through cable concept - no stock and no waste.



# SOLUTIONS

- Use of smart vision & security technologies.
- Explosion-proof and fireproof solutions.
- Subsea cable systems and a complete connectivity package specifically for this industry.
- Situational awareness on ships, rigs and in ports.
- Smart guidance and information management.
- Remote-controlled management processes using voice/audio integration and data management.
- Simple and efficient fitting of communication, safety & security and connectivity systems.
- Efficient logistics concept for connectivity systems using 'just-in-time' deliveries.



50%



LOWER COST DUE TO LOGISTIC CONCEPT.

100%



MEETING REQUIREMENTS FOR CERTIFICATION.

10%



LOWER TOTAL COST OF OWNERSHIP.



TKH supplies very specific worldwide solutions to its vertical market segment Marine & Offshore. These solutions represent a very broad portfolio that specifically focuses on safety, security and efficiency on ships, drill rigs and oil & gas transfer terminals. But offshore wind parks are also part of this portfolio. Not only robust, vandal-proof and fireproof connectivity systems, but also fully integrated and IP-based vision-security camera systems, and security and communication systems. All TKH solutions naturally meet all the statutory guidelines and the most stringent safety requirements.

With its specialty cables, including recently launched unique subsea cable systems, Marine & Offshore is definitely not unfamiliar to TKH. On the contrary, many different types of cable have already been supplied to this sector. The success of these cables has now led to Marine & Offshore becoming a specific focus market at TKH, while meeting all the market's requirements.

#### We're there to help you when every second counts

Critical environmental factors play a very important role in Marine & Offshore, perhaps even the decisive role. Systems must be available at all times and able to withstand heavy loads, high and low temperatures, moisture, oil and salt water. There is an extra focus on very hazardous and critical installations, such as on drill rigs and terminals where the primary processes are. Every interruption of extraction processes or the loading of ships is extremely costly, so continual surveillance, monitoring and 24/7 checks are an absolute necessity. The quality of TKH's solutions guarantees this.

An operator in a command and control centre must have a full overview at every moment of what is going on in, at and around the locations under surveillance. Not least in the event of a calamity, when every second counts. It is of vital importance that, in the event of incidents, it is immediately clear that everyone is actually present and no one is left behind on the rig if evacuation is initiated.

TKH's Security Management System always directly displays the right information at the right location to the right people. This is done very



**Swedish ice-breaker 'Oden' has been used for North Pole expeditions for many years. The communication solutions by TKH subsidiary Commend form a part of this ice breaker and provide unfailing service under very extreme conditions around the pole circle.**

Most of the communication terminals on board have weathered the intensive use without a problem. The call to replace the communication system was purely down to how far technology

has now advanced. 10 stations have now been replaced. However, the new Commend applications continue to communicate perfectly with the old equipment, thanks to the built-in and proven 'Commend Evergreen Technology'. Furthermore, intercom stations are being replaced with more robust and weather-resistant models. This moderate 'anti-ageing treatment' alone ensures Commend provides a reliable and efficient on-board communication service.

efficiently using data from various systems: watertight access controls, rapid (fire) alarms, and smart, explosion-proof cameras with in-built intelligence that maintain a full view of the situation and are self-testing for operational effectiveness. And not only do TKH's ultra-low-light cameras ensure surveillance in daylight, but they also provide clear camera registration in the dark. And that's a situation that is more the rule than the exception in the Marine & Offshore market.



## RENEWABLE ENERGY GENERATION WITH TKF'S SUBSEA CABLE SYSTEMS

Both sun and wind have become reliable elements in the generation of clean, green energy. By 2020, 12% of worldwide electricity demand will be produced by wind energy. As a consequence, additional investments have been made in wind-farms, mainly at sea, to secure this form of renewable energy generation.

TKH subsidiary TKF has responded to this development with its subsea cable systems that link together the wind turbines that make up the wind farms. Subsea cables consist of three copper or aluminium conductors for transporting the generated energy, and an optical fibre cable that transmits the measurement data from the connected installations. The subsea cable systems from TKF are supplied as a single unit, together with all the necessary accessories and connectors, for both ends. The biggest advantage of this approach is that the risk of cable faults and water penetration, for whatever reason, is excluded. The weight of a subsea cable can rise

to as much as fifteen hundred tonnes. In parallel to this development, we have seen a huge rise in the power generation capacity of wind turbines. They can supply more energy, but at the same time the mechanical forces acting on the subsea cables are rising. TKF supplies cable systems with a capacity up to 66 kV (kilovolt). The unique and innovative element of TKF cables is that the cable construction is made very robust, so that the risk of damage is strongly reduced during the installation.

The way in which the cables are tested is also unique on the market. The entire cables can be tested electrical, as a single unit. The complete upgrading of the TKF factory in Lochem (the Netherlands) includes the construction of a Faraday cage, in which the cables can, for example, be tested for discharge, thereby providing a complete cable blueprint. We want to be able to offer our customers a quality label. Our entire organization has been geared to this, enabling us to correctly answer any questions put to us by our customers.

66<sup>KV</sup>

VOLTAGE LEVEL.

48<sup>KG</sup>



PER METER SUBSEA CABLE.

1.500<sup>TON</sup>

TONNES TOTAL WEIGHT OF CABLE.

100%

TESTING OF THE ENTIRE CABLE AND PROCESS.

### Cutting costs with our service concept

TKH supplies connectivity systems worldwide that meet the guidelines of reputable certification bodies. High quality, short delivery times and outstanding ease of fitting are major core values that TKH focuses on with its connectivity technology in the Marine & Offshore market, as well as in other markets. Furthermore TKH supports its customers in any way it can to contribute to greater safety and to implementing process improvements, as well as to reducing costs.

We aim to partner with our customers in projects related to shipbuilding and oil rigs. Via its local logistical services, TKH supplies cut-to-size cables and ensures the requisite labeling of these cables. This enables us to provide 'just-in-time' delivery. Moreover, the label provides the customer with the necessary information about the location where the cable is to be fitted. The main benefits to customers of this service concept are lower costs resulting from purchasing efficiency, no inventories, no waste and faster and simpler fitting. What's more, this service concept features a low percentage of errors. It is also very suited to application in other market segments, helping us safeguard not only cooperation throughout the chain, but also sustainability aspects.

### Innovation and sustainability

TKH proves that innovation and sustainability work very well together. Leaving out a certain type of foil, for instance, that was used to keep cable cores separate from each other when connecting cables, resulted in a significant saving as the foil 'got in the way' when cutting cables. The solution was simple: no more foil. Simple, you'd think, but for the customer this cutting process had to be carried out thousands of times when wiring large ships. Less material was needed, contributing to greater sustainability. The market clearly places extremely high demands on material use. Connections must always be watertight and the use of materials that might cause sparks increasing the risk of explosion, is not allowed. Every cable application represents specific requirements: wind-turbine cables must be able to transport high currents. And at the installation of cables in ships, these cables must be smooth as they often have to be fed through extremely narrow openings. All top-grade and innovative connectivity technology that gives our customers peace of mind.

CASE TKF / EKB



## UNIQUE FLOATING POWER PLANT

**TKH subsidiaries TKF, EKB and Siquira didn't hesitate to take on a project, unknown anywhere on earth, to construct the first seaborne floating power plant: Bluewater Tidal Energy Converter, in short BlueTEC.**

As a tidal energy plant, BlueTEC supplies clean energy generated by the sea's tidal motion. This energy is clean, can be generated locally and is basically infinite. The major inspiration behind the project was Bluewater Energy Services, which brought together a group of 'high-tech' enterprises, including TKF, EKB and Siquira.

BlueTEC is a floating platform, constructed from two standard rectangular sea containers with a turbine mounted below that rotates in the current to generate electricity. TKF's special subsea cable,

ultimately designed to transport the electricity generated to land, is a prime example of our innovative capacity. Manufacturing of this cable was preceded by extensive research and testing by TKF in close collaboration with the Delft University of Technology. As system integrator, EKB designed the general BlueTEC automation system. In addition to designing the communication software for saving measurement data, EKB also developed the visualization and the alarm management. For data traffic, an optical fibre cable is used in TKF's subsea cable. The system ensures that all necessary data from the measuring instruments is continuously processed, stored and directly retrievable for an operator on a web page via EKB's EMI software platform. The BlueTEC sea-based camera monitoring system is supplied by Siquira.



# INDUSTRIAL MACHINE VISION

## Machine Vision really taking off

Innovative and high-tech 2D and 3D technology has grown in a short time into an indispensable worldwide technological application for optimizing manufacturing processes and automating and perfecting quality assurance and the inspection of production processes. This is resulting in far greater levels of efficiency in the industry.





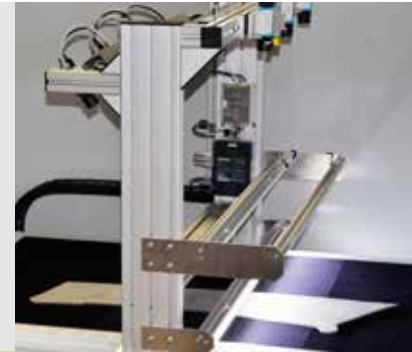
# GROWTH DRIVERS

- Demand for vision technology is increasing due to trend towards industrial automation and robotics need.
- Continue demand for more productivity and improvement of high quality of produced products.
- Vision technology is a superior alternative for the inspection of production systems and for detection, inspection and identification that cannot be seen by the human eye.
- Strong increase of new applications where vision technology will be applied.
- Because of strict regulations to the quality of food and medicines, vision technology offers the solutions because of the 100% traceability and 'fail / pass' application.

100%



UNIFORM QUALITY BY VISION TECHNOLOGY.



3,000,000  
PER SEC



MEASUREMENT SPEED 3D SCAN.

# RESULTS

- High quality and inspection control of products and processes.
- Higher customer satisfaction.
- Improved quality and (operator) safety.
- Efficiency leading to cost reductions for the customer.
- Industry 4.0 application potential.
- Efficiency in processes and logistics.
- Simplification of complex inspection applications.



# SOLUTIONS

- Expertise in applying vision technology in customer's processes.
- Sensors for inspection and quality control applications that are easy to install without interference from other parts.
- Systems that guarantee 100% inspection.
- Sensor-software features with optimal integration into customer's existing measuring instruments.
- Easy fitting and integration in existing systems.
- Direct link between readings and process controllers (PLC / computers).
- Integration of technology with robot automation.
- Automation of processes with high degree of accuracy at high speeds.
- Replaces manual input of processes requiring accuracy.

500  
PARTS PER MINUTE



360° INSPECTION TECHNOLOGY  
2D CAMERA SENSOR.



5,000  
FRAMES PER SEC.

AT 2 MEGA PIXEL IMAGE SPEED  
3D TECHNOLOGY.

0.3 SEC



'FULL FIELD' 3D-DIGITIZATION  
OF OBJECTS.

**2D technology relates to sensor technology in vision cameras that ensures high accuracy and rapid processing of images. The sensors provide a wide, dynamic reach so that recordings have a higher contrast and show more details, even in lighter and darker areas. Subtle nuances in colour and light are accurately reproduced.**

Using 3D technology, it is possible to scan objects three-dimensionally so a great deal of information can be gathered very quickly on the object concerned. The accurate 3D measurements can then be used for material inspection and quality control, for instance.

Vision technology also illustrates the progression of the fourth industrial revolution, in short Industry 4.0, which thanks to the internet and web-based solutions, applications, products and processes is overlapping increasingly with the world of consumer products and electronics. For industry this means not only significant cost reductions but also drastic quality improvements and much more reliable production processes. All without human intervention, or as we call it at TKH, 'non-contact inspection'. This reduces the risk of errors to close to zero.

#### **As widely distributed as telecommunication**

TKH powers its vision technology to great heights in its innovative and high-tech vertical growth market Industrial Machine Vision. This market is wide and very extensive and has a major impact on many different industries and on society in general. Researchers expect 2D and 3D technology to take off and to be as widely distributed and used in 20 years as is now the case for telecommunication. It'll be used for many different applications, even in our daily lives, from 'automated' households to traffic control and inspections, security and efficiency improvements and subsequent cost-reductions in many areas.

With its vision technology, TKH provides the manufacturing industry with electronic imaging, image processing and image analysis. The data generated by these technologies then forms the basis for improving the general monitoring and productivity of manufacturing processes or helping to prevent downtime due to product failure.



## A BRIGHT FUTURE FOR AGRICULTURE

**Thanks to Allied Vision's advanced cameras in innovative automation systems for laboratories, researchers can now analyze how crop yields can be optimized.**

The systems generate data on plant growth, root development, water absorption, desiccation and photosynthesis that were not previously available. This breakthrough is down to the fact that the Allied Vision cameras use infra-red light to obtain a very detailed picture of the way in which plants use water. Vision technology carries out quantitative, non-destructive measurements on crops cultivated in glasshouses. Plants pass a series of optical measuring stations where they are visualized using different wavelengths. This allows to reveal many more details than the

human eye is able to see, and also more detail than was possible until now using other methods. Each plant passes these measuring stations in various stages of its growth cycle, enabling researchers to collect statistically relevant, comparable figures over a longer period of time.

For life scientists, the use of infra-red cameras in the low infra-red range – also known as SWIR (Short-Wave-Infra-Red) – is particularly interesting. This technology provides insight into a plant's moisture levels or the water distribution in the plant. Scientists can follow the water absorption very precisely from the roots to the leaves. Conversely evaporation and desiccation are also illustrated. Allied Vision cameras are used here too.

We primarily focus on the robotics industry, mechanical engineering, the medical and pharmaceutical industry, woodworking and the automotive market.

### Efficiency and productivity

Efficiency and productivity are key concepts in every solution for industrial inspection applications. The vision-sensor cameras from TKH subsidiary Allied Vision offer high-speed interfaces for system integration and very high frame rates of up to 400 frames per second at 4 megapixels. Normal video recording, for example, runs at 'only' 24 frames per second.

Allied Vision's infra-red vision cameras are used for monitoring and inspection, including in the semiconductor industry, in the solar-cell industry to detect errors in cells, in the recycling industry to separate different types of plastic or for heat and temperature detection in the metal and/or glass industry.

The very high resolution of the vision cameras is also indispensable in the medical sector, where image processing of the smallest detail is of the greatest relevance. Such as in ophthalmology, for instance, to reveal or inspect abnormalities in the retina. Or on the other hand to give a picture of skin problems. The unique infra-red cameras reveal what conventional cameras are unable to detect. Thermal image processing, for instance, can signal sub-dermal inflammation or insufficient blood circulation.

High-tech 3D-scanning technology has also become indispensable for diagnoses and specific medical treatments, including 3D dental scanning for fitting a dental prosthesis or to establish and monitor rheumatism in hand joints. Or in cosmetic surgery to demonstrate the result of an operation in advance.

### Automotive sector

3D technology is widely used in the automotive industry, for scanning car parts, for instance. A 3D scanner is mounted above the transport system and, thanks to the 3D-sensor technology, it is possible to observe different dynamic positions of an object. The 3D data obtained in this way is then sent to a robot that uses it to automatically correct preprogrammed positions and actions.

Because the 3D data is not influenced by any external factors, this results in extremely reliable data. Due to the rapid scan speed during the production process, cycle times are kept to a minimum. This means that not only is an essential check carried out, but also that customers save time and thus money.

### Tire building industry

Vision technology has now proven itself in the tire building industry. And that's familiar territory for TKH, with its innovative tire manufacturing systems. Vision technology is an important part in this area, in the field of inspection and quality control.

All materials for the production of tires require quality control in terms of variations in thickness of the rubber, the colour, the consistency in groove depth, a fully smooth and flat tread and control of the DOT, which indicates the week and year of production. The Gocater 3D smart sensor by TKH subsidiary LMI Technologies, keeps a constant eye on this. The projected laser line from the Gocator follows the height profile of the tire and is 'read' by the built-in sensor and converted to a calibrated millimetre-scale height profile in width and height. This height profile is combined either with a 3D height picture or analyzed as a separate profile to establish the geometry and the quality. It measures up to 10 micro meter at speeds of between 100Hz and 2,000Hz.



## 3D SCANNING FOR RAPID INSPECTION

**It speaks for itself that very high quality standards are demanded in the food sector. Not only in terms of the ingredients themselves, but also of the packing methods and the packaging itself.**

Equipped as it is with smart 3D sensors, the Gocator from LMI Technologies ensures that the product and the packaging meet the predefined specifications. The Gocator is a 3D sensor that brings together laser, camera, optics, electronics and calibration in a single casing. The Gocator projects a laser line on a 'target'. The camera 'reads' the line profile and the calibration translates this into a millimetre-scale profile. The sensor scans an object, translates the scan into measurement data which is then used to check the process. For yoghurt-cup inspection, for instance, the Gocator is used to inspect the edge and surface quality of empty yoghurt cups. If deviation from the predefined parameters is detected, these cups are detected despite the high speed. The Gocator easily achieves a scan speed of up to 5 kHz. The Gocator attains an inspection speed for yoghurt cups of 600 cups per minute on the production line.

The Gocator is also used to check detergent packaging. The 3D scanners firstly measure and inspect the packaging for the presence of moisture. The packaging is then filled with detergent and the Gocator then checks to see if the packaging has been filled to the required level. If the level is too high or too low, the Gocator identifies the discrepancy and the packaging is removed so it can be redirected into the system for correct refilling.

Once a package has been stamped and sealed, it is still subject to one last inspection to guarantee production quality. In this phase of the packing and shipping process, the Gocator is used to check whether the dimensions of the packs meet requirements and are not damaged. The size of the packaging is scanned and measured to determine the optimum shipping strategy. The 3D data thus obtained is used for transport companies so they can estimate in good time how much space needs to be reserved for the cargo being transported. This helps to realize significant cost savings in the logistics process.

1,280  
MEASUREMENT  
POINTS

DIVIDED ALONG THE LASER LINE.

UP TO  
5,000

MEASUREMENTS PER SECOND.

10\*6  
MM

SMALLEST MEASURING RANGE.

1,200\*800  
MM

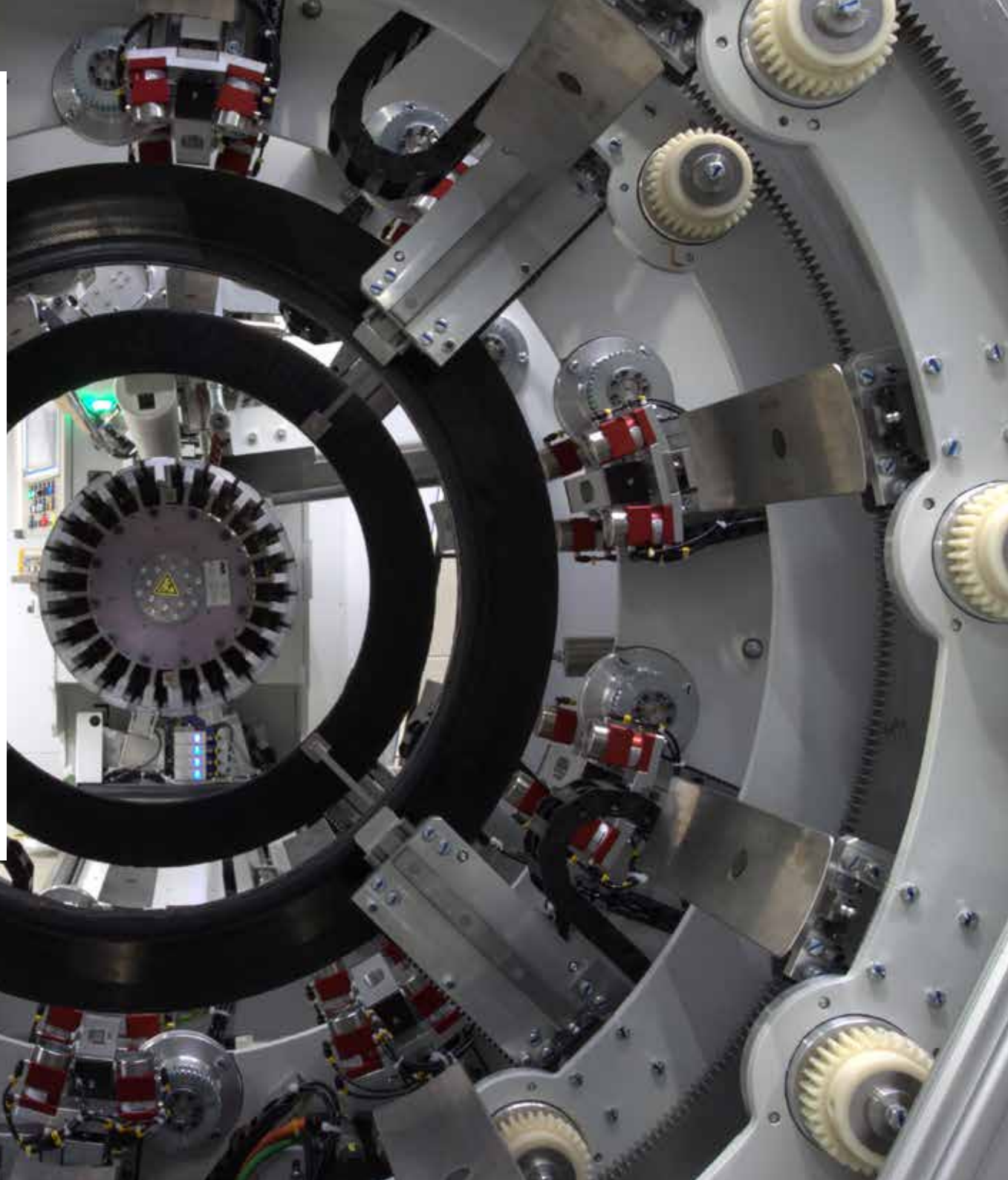
LARGEST MEASURING RANGE.



# TIRE BUILDING INDUSTRY

## Proven technology gives lead

Modern car tires are made of various top-grade materials, and advanced production methods turn these tires into a technological marvel. Continuous innovation ensures ever better performance and a longer lifespan at the lowest possible cost. The carcass of a truck tire, for instance, must keep going for about one million kilometres. So tire manufacturers don't take any risks when applying changes to their production process.



# GROWTH DRIVERS

- High priority of the tire manufacturing industry to replace existing technology with an emphasis on high productivity, efficiency, waste reduction, quality improvement and smaller batches.
- The number of types of tire for passenger cars has increased more than tenfold in recent decades. This calls for more flexible production methods.
- The trend towards ever larger tire dimensions and towards safer, better-quality tires requires technological developments.
- Local production - innovations have become essential to reduce the working capital requirement in the supply chain of the tire manufacturing industry.
- Over 70% of the existing tire manufacturing systems are older than 15 years.
- Due to the high prices of raw materials, there is a need for a more efficient use of materials in the production of tires which asks for high tech manufacturing systems.
- Due to rising labour costs, demands for manufacturing systems with higher productivity and high operator independence – ‘eyes & hands off’ manufacturing.

# SOLUTIONS

- Tire building systems with fully automatic production and high productivity.
- Operator independent via ‘hands-off’, ‘eyes-off’.
- Robotization and vision technology make systems more accurate.
- Tire building systems that maximizes output, quality, ergonomics and flexibility.
- Remote Guidance for maintenance requirements.

10,000



BEAD APEX PER DAY WITH A DIAMETER OF 12-24 INCHES.



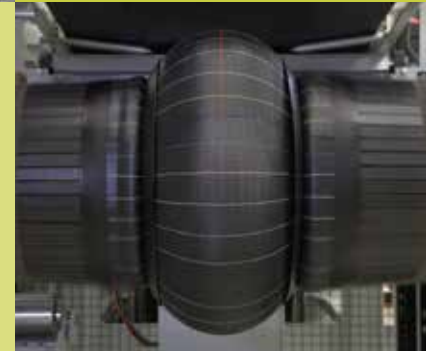
700



MILEXX: 700 TRUCK TIRES PER DAY.

# RESULTS

- More competitive Total Cost of Ownership.
- Maximum reliability and consistent high quality.
- High output with less material waste.
- Traceability of materials.
- High customer satisfaction.
- Minimizing set-up times, maintenance and machine complexity.
- Integration Manufacturing Execution Systems (MES).
- Considerable saving on response time, thus reducing downtime and assuring a quick continuation of the production process through ‘Remote Guidance’ solution.



36<sup>SEC</sup>



MAXX: 1 CAR TIRE IN 36 SECONDS  
2,000 TIRES PER DAY.



CONSIDERABLE SAVING RESPONSE TIME ENGINEERING QUESTIONS THROUGH REMOTE GUIDANCE.

40<sup>SEC</sup>



EXXIUM: 1 CAR TIRE IN 40 SECONDS  
1,500 TIRES PER DAY.



High standards are required for car and truck tires: the quality of the materials unto the way components are 'fused together' into a tire. This also requires high standards for the production process itself. TKH subsidiary VMI Group has focused exclusively on this domain for decades.

The structure of a car tire consists of multiple layers of natural or synthetic rubber, reinforced particularly in the 'sidewall' with steel wires, textile or artificial fibres. These materials together undergo a sophisticated assembly process to form a tire and guarantee good road holding (grip) and as low rolling resistance as possible for efficient use. Low wear and minimal tire noise are other important quality attributes of car and truck tires.

Although VMI is not directly involved in the development and innovation of new materials for car tires, the company does work closely with manufacturers because a change in the composition of materials has a direct impact on the way VMI constructs tires on its tire building systems. One innovation that is becoming very popular is a tire that 'seals' itself when punctured. This property is ensured by applying a viscous layer inside the tire at manufacture. Tire building machines must therefore be set up 'intelligently' enough to produce such tires as required. The same goes for winter tires, that are becoming ever softer for more grip.

Natural rubber is still superior to synthetic rubbers and is therefore primarily used for heavy duty truck tires. However, this natural product is known for its varying quality and this must be factored in at production. Weight reduction, a trend in the automotive sector, is also affecting VMI. The different components are getting thinner, so the production process has to be more precise.

### Hands-off, eyes-off

VMI's answer to all these increasingly stringent requirements is far-reaching automation. The trend is clearly towards less intervention by or even the complete absence of an operator: 'hands-off', 'eyes-off' for greater and faster output with a more stable quality. The operator no longer touches the product with his hands and the process no longer needs to be monitored by a person. This used to be a sort of living quality

CASE VMI



## MILEXX: A TECHNOLOGICAL MARVEL

**VMI's MILEXX truck tire building machine is a technological marvel for the production of truck tires.**

Compared to current systems on the market, the MILEXX has a much larger capacity – nearly 700 truck tires a day – that is unparalleled in the sector. Various unique technical innovations have been incorporated into the machine. For example,

the Clip-Bar® for advanced fastening of material that makes it possible to mechanically apply the inner lining and the sidewalls of the tire.

Furthermore, thanks to advanced vision technology, the MILEXX is able to position components on the shaping drum with greater accuracy. All this means that the influence of the operator is decreasing, further ensuring a better quality of tire.

control, but this job is now done by vision technology, sensor technology and statistical process management.

The vision technology is specifically developed for VMI's tire building systems in close cooperation with TKH subsidiaries LMI and NET. And don't forget that rubber is matt black, so clearly it has cost the TKH companies a great deal of research and development to distinguish black from black using our vision technology and to ensure analyses are carried out correctly and very precisely. The intelligent vision systems that use extremely complex



## VMI FOCUSES ON A QUALITY BREAKTHROUGH WITH PIXXEL

For years, VMI has had a sterling reputation as an innovator in the tire building industry. MAXX technology, the 'hands off, eyes off' concept, was introduced by VMI: machine operators were replaced by Vision Monitoring systems. And that ensured higher productivity with a much more consistent tire quality. However, VMI continues to further develop its technologies. The latest development, the VMI PIXXEL, has a specific focus on Industry 4.0.

New web technologies spawn self-organizing, dynamic, multi-enterprise networks. They create added value and allow better optimization in terms of costs, and the use of raw materials and energy. Industry 4.0 makes it possible to respond very rapidly to customer requirements, to organize maintenance over the entire production time, and to organize logistics more efficiently. Industry 4.0 is more of a vision on the future than a definition.

### Competitive advantages

VMI introduced cameras to the automated tire building industry many years ago. But it has now taken an important step forwards via its vision and monitoring systems under the name VMI PIXXEL. This no longer relates to just specially developed, extremely reliable cameras that deliver better machine performance. No, it is now a complete platform with the option of an online connection. It is an integrated system that makes a separate PC unnecessary, as due to smart software the system is able to detect and correct errors during the process. What's more, the software primarily uses visualization, which

helps operators to follow the process in simpler terms. Many computer-controlled machines produce enormous volumes of data on a daily basis, data which is used almost exclusively for historic analysis. VMI's new approach is to generate a competitive advantage in two different ways:

- Data can be read remotely through an online connection, which facilitates remote servicing and maintenance, for instance.
- Quality-assurance processes are simplified and improve further with the availability of more output data. This meets demand from global tire manufactures to demonstrate to the market that they produce quality tires.

VMI PIXXEL brings VMI a major step closer to Industry 4.0., in which accurate inspection and measurement systems are crucial. By using accurate output data as the basis for improved quality management and demonstrable product quality, VMI aims to expand its range of automation technology, which ultimately will lead to complete integration.



REMOTE SERVICE AND  
MAINTENANCE.

100%

QUALITY CONTROL.



100%

REDUCTION ON OPERATORS  
INTERVENTIONS.



lighting, such as special laser techniques, ensure that material analyses can be carried out at high speed and very accurately during the production process, partly as a form of quality control. Included in this is the collection of all measurement and material data per tire produced via 'tracking & tracing' using barcodes or RFID chips.

On the heels of the semi-automatic tire building machines successfully introduced in 2009 (the so-called '248 family') and after the fully-automatic MAXX family for the production of passenger car tires, the MILEXX family was introduced in early 2016 to achieve an important step into the introduction for fully automatically production of truck tires.

### Corporate design

VMI is reinforcing this message with a corporate design that gives the machines a recognizable shape and colour scheme. All frames are a greyish white and the customer-specific colour scheme is applied only to the separate sections of the sheeting that are the final components fastened to the machine. This results in a higher degree of efficiency, as it's no longer necessary to spray complete frames in the customer's chosen colour. And that's a major benefit in logistical terms.

But there are still plenty of challenges for VMI, such as establishing interfaces between its systems and the primary control systems. But there is also a lot of

attention on and research in what can be done further with the data generated during the production processes. Newer methods are being studied into how machines can be programmed faster for another tire size or how the machine can 'order' material itself instead of holding intermediate stocks. Other investigated methods relate to carrying out automatic productivity measurements and providing information to a customer's technical department, such as for preventive maintenance.

Automation, or process innovation, remains necessary. There is a chance that the essential 'character' of cars will eventually change, being seen less as a status symbol owing to the introduction of self-driving and electric cars. Though probably lower top speed will have an influence on tire production, the demand for high quality will continue.

VMI's tire building systems provide its customers with greater efficiency and therefore revenue. We offer exceptional efficiency in the tire building industry as the productivity and availability of our systems are very high and we maintain full control of our logistics processes relating to our systems. From beginning to end, everything basically runs in a closed loop at all levels of the production process, with our track & trace system allowing us to collect all measurement data imaginable, from raw materials to warehouse storage. Our high degree of efficiency, reliability and quality offer endless possibilities.



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# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

In thousands of euros	Notes	2016	2015
Net turnover		1,338,516	1,372,038
Other operating income		2,468	3,114
<b>Total turnover</b>	<b>23</b>	<b>1,340,984</b>	<b>1,375,152</b>
Changes in inventory of finished goods and work in progress		-2,094	10,281
Raw materials, consumables, trade products and subcontracted work		711,822	732,947
Personnel expenses	25	331,426	326,897
Depreciation	27	22,109	21,387
Amortization	28	32,568	31,615
Impairments	29	209	1,476
Other operating expenses	30	131,213	132,109
<b>Total operating expenses</b>		<b>1,227,253</b>	<b>1,256,712</b>
<b>Operating result</b>		<b>113,731</b>	<b>118,440</b>
Financial income	32	1,814	2,234
Financial expenses	32	-9,344	-10,464
Exchange differences	32	-125	422
Share in result of associates		933	657
<b>Result before tax</b>		<b>107,009</b>	<b>111,289</b>
Tax on profit	33	19,702	22,953
<b>Net result</b>		<b>87,307</b>	<b>88,336</b>
Attributable to:			
Shareholders of the company		85,707	86,154
Non-controlling interests		1,600	2,182
		<b>87,307</b>	<b>88,336</b>
<b>Earnings per share attributable to shareholders</b>	<b>34</b>		
Ordinary earnings per share (in €)		2.04	2.07
Diluted earnings per share (in €)		2.03	2.06
Ordinary earnings per share before amortization and one-off income and expenses (in €) <sup>1</sup>		2.25	2.40
Ordinary earnings per share before amortization (in €) <sup>1</sup>		2.31	2.37

<sup>1</sup> Non IFRS compulsory disclosure.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of euros	Notes	2016	2015
<b>Net result</b>		<b>87,307</b>	<b>88,336</b>
<b>Items that may be reclassified subsequently to profit or loss (net of tax)</b>			
Currency translation differences		835	4,678
Currency translation differences in other associates		-159	392
Effective part of changes in fair value of cash flow hedges (after tax)		1,044	988
Revaluation of available-for-sale financial assets	6	880	1,360
		<b>2,600</b>	<b>7,418</b>
<b>Items that will not be reclassified subsequently to profit or loss (net of tax)</b>			
Actuarial gains/(losses)	17	-560	-180
		<b>-560</b>	<b>-180</b>
<b>Other comprehensive income (net of tax)</b>		<b>2,040</b>	<b>7,238</b>
<b>Comprehensive income for the period (net of tax)</b>		<b>89,347</b>	<b>95,574</b>
<b>Attributable to:</b>			
Shareholders of the company		87,754	93,087
Non-controlling interests		1,593	2,487
<b>Total comprehensive income for the period (net of tax)</b>		<b>89,347</b>	<b>95,574</b>

For the impact of taxes is referred to note 16.



# CONSOLIDATED BALANCE SHEET

Before profit appropriation

In thousands of euros	Notes	31-12-2016	31-12-2015	In thousands of euros	Notes	31-12-2016	31-12-2015
<b>Assets</b>				<b>Equity and liabilities</b>			
<b>Non-current assets</b>				<b>Group Equity</b>			
Intangible non-current assets	3	395,521	400,264	Shareholders' equity	12	574,000	520,847
Tangible non-current assets	4	213,103	192,186	Non-controlling interests	13	8,520	8,570
Investment property	5	1,491	3,658	<b>Total group equity</b>		<b>582,520</b>	<b>529,417</b>
Financial non-current assets	6	25,170	22,754	<b>Non-current liabilities</b>			
Deferred tax assets	16	20,768	11,573	Non-current liabilities	18	213,913	223,073
<b>Total non-current assets</b>		<b>656,053</b>	<b>630,435</b>	Deferred tax liabilities	16	52,660	51,127
<b>Current assets</b>				Retirement benefit obligation	17	7,957	7,204
Inventories	7	206,949	194,240	Financial liabilities	15	9,655	26,089
Receivables	8	192,967	170,377	Provisions	14	5,914	3,700
Amounts due from customers under construction contracts	9	100,568	74,160	<b>Total non-current liabilities</b>		<b>290,099</b>	<b>311,193</b>
Current income tax		1,433	2,555	<b>Current liabilities</b>			
Cash and cash equivalents <sup>1</sup>	10	88,496	178,955	Borrowings <sup>1</sup>	19	51,992	126,234
<b>Total current assets</b>		<b>590,413</b>	<b>620,287</b>	Trade payables and other payables	20	248,172	209,357
				Amounts due to customers under construction contracts	9	45,794	54,136
Assets held for sale	11	0	0	Current income tax liabilities		7,370	10,480
<b>Total assets</b>		<b>1,246,466</b>	<b>1,250,722</b>	Financial liabilities	15	13,217	577
				Provisions	14	7,302	9,328
				<b>Total current liabilities</b>		<b>373,847</b>	<b>410,112</b>
				<b>Total equity and liabilities</b>		<b>1,246,466</b>	<b>1,250,722</b>

<sup>1</sup> Including € 29.8 million (2015: € 114.3 million) cash and cash equivalents that are part of the cash and interest pools.

# CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

In thousands of euros	Share capital	Share premium	Legal reserve	Revaluation reserve	Investments revaluation reserve	Translation reserve	Cashflow hedge reserve	Retained earnings	Unappropriated profit	Total shareholders' equity	Non-controlling interests	Total group equity
<b>Balance at 31 December 2014</b>	<b>10,511</b>	<b>85,219</b>	<b>35,731</b>	<b>874</b>	<b>2,802</b>	<b>16,155</b>	<b>-4,625</b>	<b>253,263</b>	<b>82,822</b>	<b>482,752</b>	<b>17,174</b>	<b>499,926</b>
Net result									86,154	86,154	2,182	88,336
Total other comprehensive income					1,360	4,765	988	-180		6,933	305	7,238
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,360</b>	<b>4,765</b>	<b>988</b>	<b>-180</b>	<b>86,154</b>	<b>93,087</b>	<b>2,487</b>	<b>95,574</b>
Appropriation profit last year								82,822	-82,822	0		0
Capital contribution										0	8	8
Dividends	96	-96						-28,071		-28,071		-28,071
Dividends to shareholders of non-controlling interests								-619		-619		-619
Acquisition of non-controlling interests								-22,493		-22,493	-11,099	-33,592
Share and option schemes (IFRS 2)								2,516		2,516		2,516
Purchased shares for share and option schemes								-10,791		-10,791		-10,791
Sold shares for share and option schemes								4,466		4,466		4,466
Change in legal reserve for participations			-54					54		0		0
Capitalized development costs			-760					760		0		0
<b>Balance at 31 December 2015</b>	<b>10,607</b>	<b>85,123</b>	<b>34,917</b>	<b>874</b>	<b>4,162</b>	<b>20,920</b>	<b>-3,637</b>	<b>281,727</b>	<b>86,154</b>	<b>520,847</b>	<b>8,570</b>	<b>529,417</b>
Net result									85,707	85,707	1,600	87,307
Total other comprehensive income					880	683	1,044	-560		2,047	-7	2,040
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>880</b>	<b>683</b>	<b>1,044</b>	<b>-560</b>	<b>85,707</b>	<b>87,754</b>	<b>1,593</b>	<b>89,347</b>
Appropriation profit last year								86,154	-86,154	0		0
Capital contribution										0	20	20
Dividends	102	-102						-32,038		-32,038	-1,616	-33,654
Dividends to shareholders of non-controlling interests								-491		-491		-491
Acquisition of non-controlling interests								-95		-95	-47	-142
Reversal of revaluation				-459				6		-453		-453
Share and option schemes (IFRS 2)								1,989		1,989		1,989
Purchased shares for share and option schemes								-8,277		-8,277		-8,277
Sold shares for share and option schemes								4,764		4,764		4,764
Change in legal reserve for participations			-1,058					1,058		0		0
Capitalized development costs			9,354					-9,354		0		0
<b>Balance at 31 December 2016</b>	<b>10,709</b>	<b>85,021</b>	<b>43,213</b>	<b>415</b>	<b>5,042</b>	<b>21,603</b>	<b>-2,593</b>	<b>324,883</b>	<b>85,707</b>	<b>574,000</b>	<b>8,520</b>	<b>582,520</b>

# CONSOLIDATED CASH FLOW STATEMENT

In thousands of euros	Notes	2016	2015	In thousands of euros	Notes	2016	2015
<b>Cash flow from operating activities</b>				<b>Cash flow from financing activities</b>			
Operating result		113,731	118,440	Dividends paid		-34,145	-28,690
Badwill not resulting in an operational cash flow		-645		Settlement of financial liabilities regarding put options of non-controlling interests and earn-out		-745	-2,205
Depreciation, amortization and impairment		56,729	55,735	Acquisition of non-controlling interests		-142	-25,175
Share and option schemes not resulting in a cash flow		1,989	2,516	Purchased shares for share and option schemes		-8,277	-10,791
Gain on disposal of tangible assets		-710	-1,256	Sold shares for share- and option schemes		4,764	4,466
Changes in provisions		-2,141	-542	Repayments on long-term debts		-11,365	-38,166
Changes in financial liabilities		-613	-247	Proceeds from other long-term debts		2,205	
Changes in working capital		-27,864	43,424	Change in borrowings		9,453	7,743
<b>Cash flow from operations</b>		<b>140,476</b>	<b>218,070</b>	<b>Net cash flow from financing activities (C)</b>		<b>-38,252</b>	<b>-92,818</b>
Interest received		1,814	2,234	Net (decrease)/increase in cash and cash equivalents (A+B+C)		-6,627	-23,875
Interest paid		-9,284	-9,964	Exchange differences		630	-1,756
Income taxes paid		-29,595	-28,771	<b>Change in cash and cash equivalents</b>		<b>-5,997</b>	<b>-25,631</b>
<b>Net cash flow from operating activities (A)</b>		<b>103,411</b>	<b>181,569</b>	Cash and cash equivalents at 1 January		64,701	90,332
<b>Cash flow from investing activities</b>				<b>Cash and cash equivalents at 31 December</b>	10	<b>58,704</b>	<b>64,701</b>
Capital contribution		20	8				
Dividends received from non-consolidated associates		578	659				
Loans		-585	-1,520				
Purchases of tangible non-current assets		-47,393	-39,683				
Disposals of tangible non-current assets		2,066	2,478				
Net cash flow on investments and divestments of investment property			-172				
Divestments in assets held for sale			3,050				
Divestment of subsidiaries		2,663					
Divestment of associates		411					
Acquisition of subsidiaries	36	-761	-49,660				
Acquisition of associates			-2,400				
Investments in intangible non-current assets		-28,926	-25,386				
Divestments in intangible non-current assets		141					
<b>Net cash flow from investing activities (B)</b>		<b>-71,786</b>	<b>-112,626</b>				

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 ACCOUNTING PRINCIPLES

### General

The financial statements in English is a translation of the official Dutch version. In the event of differences and/or inconsistencies between the English version of the financial statements 2016 and the official Dutch financial statements 2016, the latter will take precedence.

The consolidated financial statements of TKH Group N.V. (hereafter 'TKH') have been drawn up in accordance with the International Financial Reporting Standards ('IFRS') adopted by the European Commission and applicable on the accounting period that begins on 1 January 2016. The company financial statements are part of the consolidated financial statements of TKH. The financial statements have been prepared based on the historical cost basis, except for the valuation at fair value of investment property, available-for-sale financial assets, derivatives and share-based payments. All transactions in financial instruments are recognized at transaction date.

To the extent that alternative performance measures are used these are explained in the glossary which is included in the other information.

### New accounting principles and interpretations

As from 1 January 2016 the following amendments of standards and new interpretations are effective:

- Improvements to IFRS 10, IFRS 12 and IAS 28 Investment Entities - Applying the Consolidation Exception
- Improvements to IFRS 11 Accounting of Acquisitions of Interests in Joint Operations
- Improvements to IAS 1 Disclosure Initiative
- Improvements to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
- Improvements to IAS 16 and IAS 41 Agriculture: Bearer Plants

- Improvements to IAS 19 Defined Benefit Plans: Employee Contributions
- Improvements to IAS 27 Equity Method in Separate Financial Statements
- Improvements to IFRS (2010-2012 cycle) - improvements to IFRS 2, IFRS 3, IFRS 8, IAS 16 and 38, IAS 24
- Improvements to IFRS (2012-2014 cycle) - improvements to IFRS 5, IFRS 7, IFRS 8, IAS 19, IAS 34

The application of these adjustments and improvements has no material impact on the financial statements of TKH.

TKH has not opted for an early adoption of the following new standards, amendments to standards and new IFRIC interpretations, which are mandatory for accounting periods that begin on or after 1 January 2017:

- IFRS 9 Financial Instruments <sup>1</sup>
- IFRS 15 Revenue from Contracts with Customers <sup>1</sup>
- IFRS 16 Leases <sup>2 3</sup>
- Amendment to IFRS 2 Classification and Measurement of Share-based Payment Transactions <sup>1 3</sup>
- Amendment to IAS 7 Disclosure initiative <sup>3</sup>
- Amendment to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses <sup>3</sup>
- Amendment to IAS 40 Transfers of Investment Property <sup>1</sup>
- IFRIC 22 Foreign Currency Transactions and Advance Consideration <sup>1</sup>
- Annual Improvements to IFRS Standards 2014-2016 Cycle <sup>3</sup>

TKH expects that the adoption of the new standards and amendments to standards in future periods will not have a material impact on its financial statements based on its current activities, with the exception of IFRS 9, IFRS 15 and IFRS 16. The adoption of IFRS 9 could have an impact on the valuation and presentation of financial instruments depending on their contractual cash flow and the business model under which they are held. Due to the replacement of the 'incurred loss model' by a so called 'expected credit loss model' losses should be taken earlier. TKH has not

made a detailed assessment of the impact of IFRS 9, but expects that the amended rules regarding hedge accounting have a limited impact on the financial statements because the current applied hedge accounting can be continued under IFRS 9.

IFRS 15 will replace the standards IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The new standard will be required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. IFRS 15 requires the identification of separate performance obligations (such as sales and maintenance) and the allocation of the transaction price to the performance obligations based on individual sales prices. This has an impact on the timing and amount of revenue to be recognized. In addition, a new provision regarding the recognition of revenue over a period of time has been introduced. Furthermore, there are, especially in the case of long-term contracts, several new disclosures required, such as the obligation to specify the turnover by nature and origin, as well as numerous reconciliations for assets and liabilities arising from contracts. TKH expects that IFRS 15 can have an impact on the moment of revenue recognition for construction contracts for third parties. To this end, an analysis is performed on material contracts, however, this analysis has not been completed and therefore the impact cannot yet be quantified.

IFRS 16 is not yet endorsed by the European Union. As a result of this new standard all lease obligations, such as leases relating to real estate, must be recorded on the balance sheet as of 1 January 2019. There is an exemption for leases of assets with a low value and leases with a short term. The income statement also changes because the recognition of lease expense under other operating costs is replaced by depreciation and interest expense. TKH has not made a detailed assessment of the impact of IFRS 16, but the non-current assets ('right-of-use assets') and lease liabilities will increase significantly. In note 22 the off-balance sheet lease

<sup>1</sup> Effective for accounting periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for accounting periods beginning on or after 1 January 2019.

<sup>3</sup> Not yet endorsed by the European Union.



obligations are further quantified. Moreover, the banking group has agreed that the changes under IFRS 16 will have no impact on the bank covenants.

### Consolidation

The consolidated financial statements include the annual accounts of all subsidiaries over which TKH has control. Control is achieved when TKH is, exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. A list of consolidated entities is included in the overview of subsidiaries in 'Other information'. If facts and circumstances indicate that there are changes to one or more of the three elements of control, TKH re-assesses whether or not it controls an investee. Consolidation of a subsidiary begins when TKH obtains control over the subsidiary and ceases when TKH loses control of the subsidiary.

Profit or loss and each component of other comprehensive income (hereafter 'OCI') are attributed to the shareholders of TKH and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting principles in line with TKH's accounting principles. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between subsidiaries are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If TKH loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss.

### Segmentation

The information is segmented into the operating segments Telecom, Building and Industrial Solutions of which discrete financial information is available that is evaluated regularly by the highest operational decision-makers. The Executive Board decides on the allocation of resources and reviews the performance of the segments (Solutions). These performances are

reviewed and reported to the level of operating profit. The segments are based on the product/market combinations in which TKH companies operate. The accounting principles that are applied to these consolidated financial statements also apply to the business segments. The transaction prices for deliveries between segments are determined on a commercial basis. The results, assets and liabilities of a segment include both items directly linked to that segment as items that can reasonably and consistently be allocated to that segment. Besides the information about the operating segments, selective information by geographic region is disclosed.

### Foreign currencies

The consolidated financial statements are presented in euros, which is also the functional currency of TKH. Transactions in foreign currencies are translated into the respective functional currencies of the entities of the group, at the prevailing exchange rate at transaction date. In foreign currency denominated monetary assets and liabilities at the balance sheet date are translated at the exchange rate prevailing at that date. The result of the conversion occurring exchange differences on monetary items, are recorded in the profit and loss account.

Assets and liabilities of foreign subsidiaries with a functional currency other than the euro are translated at the exchange rates prevailing on balance sheet date. The profit and loss accounts of foreign subsidiaries are translated using the weighted average monthly exchange rates over the year under review. Goodwill and fair value adjustments related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rates at the balance sheet date. The exchange differences arising from the translation are recognized through the OCI as a separate item in equity. These exchange differences are recognized in the profit and loss account as part of the transaction (cost) in the period in which the activities are disposed of.

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date at fair value and the amount of any non-controlling interests in the acquiree, in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss

as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19R Employee Benefits respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of TKH entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date;
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the net amounts of the identifiable assets acquired and the liabilities assumed at acquisition date. If the amount is negative, the difference is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests are reported separately from the group result and group equity. Acquired non-controlling interests are treated as transactions with owners in their capacity as owner and there is no goodwill reported in respect of such transactions. The adjustments of the non-controlling interests arising upon transactions where there is no control are based on a proportionate amount of the net assets of the subsidiary.

When a non-controlling shareholder has an unconditional right to sell its shares to TKH according to a contractual agreed formula ('put option'), a liability is recognized for the shares to be purchased. The liability is recognized at the present value of the estimated future cash outflow. A legal reserve is accounted for the interest in the equity of the subsidiary of which the economic ownership has been obtained, but not yet the legal ownership. Adjustments after balance sheet date on the value of the financial liability for put options and earn-out payments are recognized directly into the profit and loss account.

## Intangible non-current assets

### Goodwill

Goodwill, as the positive difference between the purchase price and the company's interest in the net asset value (on the basis of the total of the fair value of assets acquired and liabilities assumed) of acquired participations, is capitalized. Goodwill is allocated to cash-generating units. Goodwill is not amortized. Instead, it is tested at least annually for impairment. Any impairment loss is recognized in the profit and loss account as soon as it occurs and is not reversed in subsequent periods. On sale of a subsidiary, the goodwill is included in the determination of the profit or loss on a disposal.

### Other intangible non-current assets

Expenditure for research is charged to the profit and loss when incurred. Expenditure for development is capitalized if the following conditions are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development costs can be measured reliably.

Development costs are not capitalized if they are directly reimbursed by third parties and TKH does not obtain the property rights. Other intangible non-current assets are valued at historical cost less amortization. The amortization is on a straight-line basis over their expected useful life. The expected useful life is as follows:

- Capitalized development costs: 3-5 years;
- Patents, licenses and trademarks: 3-10 years;
- Acquired customer relationships: 7-17 years;
- Acquired brand names: 10-15 years;
- Acquired intellectual property: 5-10 years.

## Tangible non-current assets

### Lease

A lease is classified as a financial lease if the terms of the lease transfer practically all the risks and rewards of ownership of an asset. All other lease agreements are classified as operating leases. Assets acquired as financial lease are valued at the lower of the fair value and the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Payments made under an operating lease are recognized in the profit and loss account in the period to which they relate.

Benefits arising from entering into an operating lease are spread over the term of the lease.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Property, plant and equipment are depreciated from the date they are ready for their intended use. Depending on the type of asset, a residual value of 0 to 10% is taken into account. The estimated useful lives are as follows:

- Buildings: 30-33 years;
- Machinery and installations: 5-15 years;
- Other equipment: 3-10 years.

Land is not depreciated. Other equipment includes furniture, IT-hardware and transport equipment.

### Investment property

The investment property are business premises and houses not used for own business operations. These assets are stated at fair value. The fair value is based on market value. Market values are derived from the most recent valuation reports. Valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value at balance sheet date. Gains and losses due to changes in the fair value are recognized directly in the profit and loss account in the period that the change in fair value occurs.

## Financial non-current assets

### Associates

The associates in which TKH has significant influence in the financial and operating policy decisions, but no control, are valued according to the equity method. Under the equity method, the share in the profit or loss of the associate is recognized in the profit and loss account. The share in the associate is determined based on TKH's share in the net assets of the associate, including the paid goodwill at acquisition and less any impairment loss. Dividend from associates is recognized when the shareholders' right to receive payments has been established.

### Available-for-sale financial assets

Listed shares that are traded in an active market are classified as

available-for-sale financial assets and are stated at fair value. Fair value is based on the stock price at balance sheet date. Gains and losses due to changes in the fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve for available-for-sale financial assets. When the investment is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends are recognized in profit or loss when the shareholder's right to receive the dividends is established.

### Impairment

At least annually, the company reviews its tangible and intangible non-current assets to determine whether there are indications that those assets have suffered an impairment loss. If there is any such indication the recoverable value of the asset is estimated to determine the extent of the impairment loss. If the asset does not generate cash itself, the company determines the recoverable value of the smallest cash-generating unit to which the asset belongs.

The recoverable amount is the fair value less cost to sell or the value in use, whichever is higher. The value in use is based on the estimated future cash flows that are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is less than its carrying amount, the asset is recognized at the recoverable amount. An impairment loss is recognized immediately in the profit and loss account.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, with the exception of goodwill, but never higher than the carrying amount that would have been determined when no impairment loss has been recognized. The increase is recognized immediately in the profit and loss account.

### Inventories

Inventories are stated at the lower of cost and net realizable value. The net realizable value is the estimated sales price in normal course of business less estimated cost of completion and selling expenses. The cost of raw materials and consumables is based on

the average purchase price and cost incurred in bringing the inventories to their present location and condition. The cost of semi-manufactured and finished product comprises the direct materials and direct labor costs as well as a surcharge for the indirect production costs.

### Construction contracts for third parties

If the outcome of a construction contract for third parties can be reliably determined, then the revenue and costs are reported in proportion to completion at the balance sheet date. The stage of completion is calculated on the basis of the related costs incurred for services provided in comparison to the total expected project costs, unless this is not representative for the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the customer will approve this, they can be determined reliably and settlement is likely. If the outcome of a construction contract cannot be measured reliably, revenue is accounted for the costs incurred if it is probable that the benefits will be realized. Contract costs are recognized as expenses in the period that they occur. If the expected project costs exceed the expected project revenue, then the expected loss is provided directly and deducted from the construction contracts.

Construction contracts, consisting of the balance of costs incurred, profits and losses taken less amounts invoiced, are stated as a receivable when the balance is positive. If the balance of costs incurred, profits and losses taken less invoiced amounts on a project is negative, it is stated as a liability for that particular contract.

### Receivables

Receivables are initially recognized in the financial statements at fair value and thereafter at amortized costs, using the effective interest method and with a deduction of an allowance for doubtful debts.

### Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash on hand and short-term deposits.

### Assets held for sale

Non-current assets are classified as held for sale if their carrying

amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale. Assets held for sale are measured at the lower of either their previous carrying amount or fair value less costs to sell. Assets held for sale are not depreciated.

### Provisions

#### General

Provisions are recognized when (a) TKH has a present obligation (legal or constructive) as a result of a past event, (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (c) a reliable estimate can be made of the amount of the obligation. Provisions are recognized based on the expected expenditure required to settle the obligation. Long-term provisions, with the exception of the provision for deferred tax, are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, an increase in the provision as a finance cost is recognized due to the passage of time.

#### Pensions

Premiums for defined contribution plans are recognized as liabilities in the period to which they relate.

For defined benefit pension plans, the net liability is calculated per scheme by estimating the defined benefit obligation that employees are entitled to in exchange for their services rendered during the financial year and previous years. The defined benefit obligations are discounted and the fair value of the plan assets is deducted from the obligation. The defined benefit obligations and the costs of the defined benefit plans are calculated according to the 'Projected Unit Credit Method', with actuarial calculations being made at balance sheet date. This method takes into account future salary increases as a result of the career opportunities of employees and general wage developments including inflation adjustment. The discount rate is the yield rate at the balance sheet date on high quality corporate bonds with a term that approaches the term of the obligations of TKH. Actuarial gains and losses are directly accounted for in the OCI, which will not be reclassified subsequently to profit or loss. If the calculation results in a potential asset, the recognition of the

asset is limited to the present value of any economic benefits available in the form of future refunds from the plans or reduced future pension contributions ('asset ceiling'). This is evaluated per pension scheme. In the calculation of the present value of economic benefits any minimum funding obligations that apply are taken into account. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Net interest on defined benefit obligations are accounted for as interest expense as part of the financial expenses. When pension rights are changed under an arrangement, the change in pension entitlements related to past service or the gain or loss on that change is recognized directly in the profit and loss account.

Pension costs, including pension costs on past service costs and the impact of settlements and curtailments are recognized as personnel costs.

#### Jubilee bonuses

The net liability for jubilee bonuses is the amount of future benefits that relate to services from employees during the financial year or previous periods. The liabilities are discounted to its present value taking into account estimated dismissal chances and salary increases.

#### Provision warranty obligations

The provision warranty obligations is recognized for the estimated costs that are expected to arise from active warranty obligations in respect of goods and services at balance sheet date. The costs arising from warranty claims are charged against the provision.

#### Other provisions

Unless stated otherwise, the other provisions are valued at the nominal value of the expenditure that are estimated to be necessary to settle the respective obligations.

#### Deferred tax

Deferred tax relates to temporary differences between the value in the financial statements and the value for tax purposes. No deferred tax is recognized for non-deductible goodwill and associates included in the participation exemption.

Deferred tax assets are only recognized to the extent that it is probable that they can be realized.

Deferred tax is calculated at the tax rates that are expected to apply when they are settled. Changes in deferred tax are recognized immediately in the profit and loss account, with the exception of deferred tax that relates to items that are recognized in the OCI or directly in equity.

### Interest bearing liabilities

Interest bearing liabilities are initially measured at fair value, after deducting related transaction costs, and subsequently measured at amortized costs, using the effective interest rate method.

### Other liabilities and accruals

The other liabilities are initially recognized at fair value and thereafter measured at amortized costs, which generally is equal to the nominal value.

### Derivatives

Financial assets and financial liabilities are recognized in the balance sheet when TKH concludes a contract for such an instrument. Derivatives are stated at fair value on the contract date and are then measured at the prevailing fair value at subsequent reporting dates. Changes in the fair value of derivatives that are designated and effective as hedges of future cash flows are recognized directly in the OCI and accounted for as a separate item in equity. The ineffective portion is recognized immediately in the profit and loss account. If the cash flow from an existing commitment or an expected future transaction results in the recognition of an asset or liability, at the time the asset or liability is recognized the associated gains or losses on the hedging instrument that had previously been recognized in the OCI are included in the valuation of the asset or the liability. For hedges that do not result in the recognition of an asset or a liability, the gains or losses recognized in the OCI are recognized in the profit and loss account in the same period as the underlying hedged transaction is recognized in the profit and loss account. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized immediately in the profit and loss account.

Hedge accounting is discontinued when the hedge instrument expires, is sold, exercised or no longer qualifies for hedging. The cumulative gains or losses on that hedging instrument recognized up to that time in equity are recognized in the profit and loss account when the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the cumulative gains or losses recognized in the OCI are transferred to the profit and loss account.

### Turnover

The turnover of TKH consists of goods, projects and services within the business segments Telecom, Building and Industrial Solutions that can be delivered to customers as a separate product/service or as a total solution. Total turnover comprises the net turnover and other operating income. Net turnover comprises the amounts in the reporting year from the supply of goods and services to third parties less discounts, bonuses and stock returns.

### Products and goods

The supply of goods is recognized as turnover if the following conditions are met:

- The significant risks and rewards of ownership of the goods are transferred to the buyer;
- TKH does not retain involvement and effective control over the sold goods usually associated with ownership;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to TKH; and
- The costs incurred or to be incurred related to the transaction can be reliably measured.

### Construction contracts

Turnover on construction contracts for third parties in progress is recognized in accordance with the accounting principles described under 'construction contracts' (see before).

### Services

Services primarily relate to project management, installation, service and maintenance. If the result of a transaction in which services are performed can be estimated reliably, then the revenue relating to those transactions are included for the stage of com-

pletion at the balance sheet date. The result of a transaction can be estimated reliably when all the following conditions are met:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to TKH;
- The extent to which the services have been performed at the reporting date can be reliably determined; and
- The costs incurred or to be incurred related to the transaction can be reliably measured.

The profit recognition based on stage of completion is determined as follows:

- Installations include relatively low fees with a quick turnaround and are therefore recognized after completion;
- Service and maintenance fees are recognized for the stage of completion.

### Operating expenses

#### General

The cost of production and other expenses directly related to ordinary operational activities which underlie the operating income are stated as operating expenses.

#### Government subsidies

Government subsidies are recognized in the profit and loss account in the same period as the expenses to which they relate. The subsidy is deducted from the related costs. Subsidies relating to non-current assets are stated as amounts received in advance and credited to the profit and loss account over the expected useful life of the asset concerned.

#### Share-based payments

TKH has a stock option and a share scheme, which both qualify as share-based payments:

- The stock options are settled in equity instruments. They are valued at fair value at the date they were granted. The fair value is calculated by using an option pricing model that takes into account market related vesting conditions attached to the granting of the options. The fair value is written off against the profit and loss account over the period between the granting of the options and the time that the share options vest, adjusted for the expected number of share options to be exercised.
- The shares issued free of charge are also settled in equity



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instruments and are measured at the grant date at fair value. The fair value is determined based on the prevailing share price at the time of grant. The fair value is charged to the profit and loss account in the year to which the grant relates.

### **Financial income and expenses**

Financial income and expenses comprise the interest received from or paid to third parties relating to the year under review. Interest is recognized according to the effective interest method. The interest income and the interest expenses on bank accounts that belong to one and the same interest combination are set off. The interest balance of the interest combination is stated under interest income or interest charges. Financial expenses related to the construction of tangible non-current assets have not been recognized as part of the asset.

Translation differences on sale and purchase transactions are classified under financial income and expenses.

### **Tax**

Tax is calculated on the result before tax, taking into account the prevailing tax rates and tax legislation in the different countries. Tax is accounted for in the profit and loss account, unless it relates to items directly recognized in the OCI, in which case taxes are also accounted for in the OCI. In addition to the tax directly payable or receivable for the reporting year, the item also includes the changes in the deferred tax assets and liabilities and adjustments to tax assessments from previous years.

### **Non-controlling interest**

This item comprises the share of third parties in the results and equity of subsidiaries according to TKH's accounting principles.

### **Cash flow statement**

The cash flow statement has been drawn up using the indirect method. With this method, the net result is adjusted for items in the profit and loss account that have no impact on income and expenses in the year under review and changes in items in the balance sheet and profit and loss account whose income and expenses are not considered to belong to the operational activities. The cash position in the cash flow statement consists of cash and cash equivalents less short-term borrowings included in bank balance compensation schemes as this is part of the daily cash management.

Cash flows in foreign currencies are converted according to an estimated average exchange rate. Exchange differences with respect to cash and cash equivalents are presented separately in the cash flow statement. Income taxes, paid and received interest are included in the cash flow from operating activities. Received dividends are included in the cash flow from investment activities, while paid dividends are included in the cash flow from financing activities. The purchase price of acquisitions is included in the cash flow from investing activities, to the extent that payment has taken place in cash or cash equivalents. Cash and cash equivalents that are present in the acquired subsidiaries are subtracted from the purchase price. Transactions which do not involve a cash exchange are not included in the cash flow statement. The payments of the lease terms regarding financial lease contracts are presented as repayments on loans for the repayment component of debt and as paid interest for the interest component.

## 2 SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the consolidated financial statements management has made judgments, estimates and assumptions. These judgments, estimates and assumptions affect the reported amounts of assets and liabilities, revenues and expenses and disclosed contingent assets and liabilities at the date of the financial statements. The actual outcome can vary from these judgments, estimates and assumptions. All assumptions, expectations and forecasts used as a basis for estimations in the consolidated financial statements are as good as possible a reflection of the forecast of TKH. Management is of the opinion that a reasonable basis exists for the assumptions, expectations and forecasts. Estimates are related to known and unknown risks, uncertainties and other factors that can lead to future results and performances that significantly vary from those forecasted.

Significant judgments, estimates and assumptions are described hereafter.

### Fair values

TKH periodically reviews the significant fair value changes regarding specific positions in the financial statements. In case external information is used to determine the fair value, TKH reviews the evidence obtained from these third parties to verify if these valuations meet IFRS requirements, including the level of hierarchy of the fair values in which these valuations are classified. TKH applies the following hierarchy for determining the fair value of financial instruments:

- Level 1: Price quotations on active markets for identical assets and liabilities.
- Level 2: Other inputs than quoted prices included in level 1, that are either directly or indirectly observable for the asset or liability. TKH makes use of derivatives valuation reports of financial institutions. These valuations are checked with interest rates, interest curves and exchange rates that are regularly published.
- Level 3: Calculations that use input variables that have a significant effect on the fair value and that are not based on available market quotations. TKH makes use of independent valuers.

The table below shows the hierarchy and carrying amounts of the assets and financial instruments that are recognized in the balance sheet at fair values:

In thousands of euros	Notes	Hierarchy	2016	2015
<b>Assets</b>				
Investment property	5	Level 3	1,491	3,658
Available-for-sale financial assets	6	Level 1	11,302	10,422
Foreign currency forward contracts	21	Level 2	639	276
Commodities (derivatives)	21	Level 2	272	
			<b>13,704</b>	<b>14,356</b>
<b>Liabilities</b>				
Interest rate swaps	21	Level 2	2,663	4,603
Foreign currency forward contracts	21	Level 2	1,556	507
Commodities (derivatives)	21	Level 2	203	254
			<b>4,422</b>	<b>5,364</b>

The carrying amount of trade receivables and other receivables approaches the fair value, because a possible uncollectible amount is accounted for by a provision which is deducted from the receivables. The carrying amount of cash and cash equivalents, trade creditors and other payables approaches the fair value, mainly because of the short maturity of these financial instruments. The fair value of interest bearing long-term debts, for which the facility and associated pricing is renewed end of 2016, approaches the amortized costs, because it bears a floating interest and the interest rate swap is recognized at fair value. The derivatives are valued at fair value. More information about the assumptions for the determination of the fair value is included in the relevant explanatory notes.

The investment property relates to real estate which is situated in different regions of the Netherlands and relate to a business premise and houses. If in all regions a decline in market value would arise of 10%, then this would have a negative effect on the net result and equity of € 0.1 million. The movement in the value of the assets which are classified to level 3 is included in the relevant explanatory notes.

### Price, credit, interest and currency risks

Note 21 contains information about these risks.

### Goodwill

Note 1 and 3 includes information about the valuation of goodwill and the impairment test on goodwill.

### Intangible non-current assets related to acquisitions

In the financial statements a material amount for intangible non-current assets obtained in an acquisition has been reported. The first recognition of these assets at fair value has been determined on the basis of valuation models. The outcomes are mainly dependent on the applied assumptions (e.g. percentage of growth, royalty fees, and useful lives) and future expectations.

### Construction contracts

TKH executes construction contracts with third parties whereby interim profits have been recognized. The interim profit is based on the expected profit on the contract and the estimated stage of completion. For this, predetermined cost calculations are used which are specified per contract phase. Based on realization and

estimates of project managers and controllers estimates are updated periodically, reviewed by local management, and used as starting point for the recognition of costs and revenues.

### Pensions

The majority of the pension plans qualify as defined contribution plans. Only some in size limited plans qualify as defined benefit plans. Notes 1 and 17 include the assumptions used for the calculation of the pension expenses and the provision for pensions. In note 17 a sensitivity analysis on the present value of the defined benefit obligation is included in case of a change of the discount rate, inflation and life expectancy.

### Financial liabilities for squeeze-out, earn-out and put option agreements

In the financial statements, financial liabilities are recognized for obligations related to the squeeze-out of minority shareholders, earn-out agreements and put options granted to minority shareholders. The financial liabilities for earn-out and put options are based on estimates of future operating results and are derived from business plans of the companies concerned.

### Other provisions

The other provisions relate to guarantee liabilities, claims and jubilee bonuses. These provisions are based on estimates and available information.

## 3 INTANGIBLE NON-CURRENT ASSETS

In thousands of euros	Notes	Goodwill		Brand names, customer relations and intellectual property		Development costs		Patents, licenses, software and trademarks		Total	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Historical cost at 1 January</b>		<b>238,843</b>	<b>223,520</b>	<b>178,746</b>	<b>150,896</b>	<b>90,767</b>	<b>67,784</b>	<b>48,892</b>	<b>28,136</b>	<b>557,248</b>	<b>470,336</b>
Accumulated amortization and impairment losses		2,243	2,243	85,745	67,830	45,994	33,055	23,002	15,539	156,984	118,667
<b>Book value at 1 January</b>		<b>236,600</b>	<b>221,277</b>	<b>93,001</b>	<b>83,066</b>	<b>44,773</b>	<b>34,729</b>	<b>25,890</b>	<b>12,597</b>	<b>400,264</b>	<b>351,669</b>
Additions and capitalization						23,653	20,369	5,273	5,017	28,926	25,386
Reclassification from tangible non-current assets	4						56	602	148	602	204
Reclassifications						415		-415		0	0
Acquisitions	36	65	13,470	1,326	25,049			14	13,486	1,405	52,005
Divestment of subsidiaries	37	-3,143		-411						-3,554	0
Disposals						-58		-83		-141	0
Amortization	28			-15,723	-17,283	-11,071	-8,881	-5,774	-5,451	-32,568	-31,615
Impairment losses	29					-855	-1,823			-855	-1,823
Adjustment for earn-out liabilities	15		-152							0	-152
Exchange differences		645	2,005	1,433	2,169	111	323	-747	93	1,442	4,590
<b>Book value at 31 December</b>		<b>234,167</b>	<b>236,600</b>	<b>79,626</b>	<b>93,001</b>	<b>56,968</b>	<b>44,773</b>	<b>24,760</b>	<b>25,890</b>	<b>395,521</b>	<b>400,264</b>
Accumulated amortization and impairment losses		2,243	2,243	100,382	85,745	55,286	45,994	27,035	23,002	184,946	156,984
<b>Historical cost at 31 December</b>		<b>236,410</b>	<b>238,843</b>	<b>180,008</b>	<b>178,746</b>	<b>112,254</b>	<b>90,767</b>	<b>51,795</b>	<b>48,892</b>	<b>580,467</b>	<b>557,248</b>

The additions for brand names, customer relations and intellectual property concern the fair value, which is allocated to these intangible non-current assets of acquired companies. The intellectual property concerns in business combinations acquired patents, licenses, designs, software and other intellectual property.

Goodwill is allocated to sub segments, which are considered as cash generating units ('CGU'). Impairment is assessed at this level. The goodwill is allocated as follows per group of CGU's:

CGU	Goodwill	Discount rate before tax	Functional currency	Operating segment
In thousands of euros (unless stated otherwise)	2016	2015	2016	
Indoor telecom & copper networks	29,596	29,596	12.0%	EUR Telecom Solutions
Fibre network systems	3,225	3,225	12.3%	EUR Telecom Solutions
Building connectivity systems	37,182	37,115	11.4%	EUR Building Solutions
Vision & security systems	124,812	127,312	10.2%	EUR/USD Building Solutions
Industrial connectivity systems	29,444	29,444	11.7%	EUR Industrial Solutions
Manufacturing systems	9,908	9,908	12.6%	EUR Industrial Solutions
<b>Total</b>	<b>234,167</b>	<b>236,600</b>		

The realizable value of the cash generating units, in which goodwill has been reported, is based on the value in use. The value in use is based on the estimated discounted value of future cash flows. These forecasts are derived from the internal business plans, which are drawn up annually and have a horizon of five years. These business plans contain financial budgets and have been prepared by local management and are approved by the Executive Board. Cash flows after the financial budget period have been extrapolated, taken into account a growth of 1.5% (2015: 1.5%). The future cash flows are discounted at the discount rate shown in the table, which is based on the risk profile of the CGU (2015: 10.8 to 13.6%). Based on the adopted assumptions, the performed impairment test did not lead to impairment at year-end 2016. However, in 2016 impairments totaling € 0.9 million were recognized, related to capitalized development costs in the CGU vision & security systems due to small discontinued development projects.

Inherent to the applied calculation methodology, a change in the assumptions can lead to a different conclusion regarding impairment. In the table below, the impact of sensitivity analysis for all CGU's is shown in which:

- EBITDA decreases by 10%;
- the discount rate increases by 1%; or
- the annual growth rate after the financial budget period decreases by 0.5%.

The amounts below relate to the impact on the recoverable value based on the sensitivity analysis. This analysis has not taken into account any potential cost reduction to maintain an adequate level of profitability.

in millions of euros	Decrease EBITDA by 10%	Increase discount rate by 1%	Decrease growth rate by 0.5%	Combination of assumptions
Indoor telecom & copper networks	-7.2	-8.2	-3.0	-16.4
Fibre network systems	-18.4	-18.5	-7.0	-39.6
Building connectivity systems	-45.8	-45.7	-17.5	-97.4
Vision & security systems	-101.4	-119.9	-46.3	-237.4
Industrial connectivity systems	-28.8	-29.7	-10.4	-61.8
Manufacturing systems	-59.8	-53.8	-20.0	-120.8

The sensitivity analysis does not lead to impairment in one of the CGU's due to the available headroom between the recoverable value and the book value.

The market capitalization of TKH amounted to € 1,585 million on 31 December 2016 and was significantly higher than the value of the net assets of TKH.



## 4 TANGIBLE NON-CURRENT ASSETS

In thousands of euros	Notes	Land and buildings		Machinery and installations		Other equipment		Operating assets in progress		Total	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Historical cost at 1 January</b>		150,118	133,143	221,378	203,403	119,360	109,644	20,883	11,406	511,739	457,596
Accumulated depreciation and impairments		62,488	56,009	167,274	153,399	89,721	80,636	70	83	319,553	290,127
<b>Book value at 1 January</b>		<b>87,630</b>	<b>77,134</b>	<b>54,104</b>	<b>50,004</b>	<b>29,639</b>	<b>29,008</b>	<b>20,813</b>	<b>11,323</b>	<b>192,186</b>	<b>167,469</b>
Purchases		13,461	9,509	11,477	9,866	8,725	10,784	13,202	9,524	46,865	39,683
Acquisitions			443	232	269	56	1,001			288	1,713
Divestment of subsidiaries	37					-1,273				-1,273	0
Disposals		-484	-9	-178	-185	-694	-958		-70	-1,356	-1,222
Depreciation	27	-4,982	-4,658	-8,629	-8,249	-9,208	-9,681			-22,819	-22,588
Impairments	29	-371		76		-192				-487	0
Exchange differences		-748	1,244	-433	1,423	-49	-405	-31	73	-1,261	2,335
Reclassification from/to intangible non-current assets	3		1		-58	-568	-110	-34	-37	-602	-204
Reclassification from/to investment property	5	1,562	3,966		1,034					1,562	5,000
<b>Book value at 31 December</b>		<b>96,068</b>	<b>87,630</b>	<b>56,649</b>	<b>54,104</b>	<b>26,436</b>	<b>29,639</b>	<b>33,950</b>	<b>20,813</b>	<b>213,103</b>	<b>192,186</b>
Accumulated depreciation and impairments		80,627	62,488	171,531	167,274	86,425	89,721	70	70	338,653	319,553
<b>Historical cost at 31 December</b>		<b>176,695</b>	<b>150,118</b>	<b>228,180</b>	<b>221,378</b>	<b>112,861</b>	<b>119,360</b>	<b>34,020</b>	<b>20,883</b>	<b>551,756</b>	<b>511,739</b>

A reclassification within the tangible non-current assets of total € 15.6 million is included in the comparative figures, which reclassifies assets from the other categories to operating assets in progress. The operating assets in progress are mainly related to the new plant for subsea activities and the factory in Poland for manufacturing systems.

In the tangible non-current assets, financial leases are included with a book value of € 0.2 million. The accompanying financial debt included in the borrowings amounts to € 0.2 million. Land and buildings with a book value of € 0.2 million have been pledged to secure bank facilities. The impairment of € 0.5 million relates to the relocation of LMI Technologies (vision & security systems) to a larger premises. As a result the building-related assets related to the old premises are impaired.

## 5 INVESTMENT PROPERTY

In thousands of euros	Notes	2016	2015
<b>Balance at 1 January</b>		<b>3,658</b>	<b>8,494</b>
Purchases			172
Reclassification to land and buildings	4	-1,562	-5,000
Reversal of revaluation due to reclassification to tangible non-current assets		-605	
Change in fair value			-55
Exchange differences			47
<b>Balance at 31 December</b>		<b>1,491</b>	<b>3,658</b>

Due to a changed insight about the future use, investment property of € 1.6 million has been reclassified in 2016 to land and buildings, and the related revaluation reserve is reversed. The remaining investment property is related to a few Dutch houses and an office premises. Investment properties are appraised once every three years using a rotation schedule. The valuation method is in accordance with internationally accepted methods of valuation.

## 6 FINANCIAL NON-CURRENT ASSETS

In thousands of euros	Other associates		Available-for-sale financial assets		Loans and receivables			Total
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Balance at 1 January</b>	<b>10,440</b>	<b>7,650</b>	<b>10,422</b>	<b>9,062</b>	<b>1,892</b>	<b>372</b>	<b>22,754</b>	<b>17,084</b>
Acquisition of an interest		2,400					0	2,400
Acquired financial non-current assets					1,166		1,166	0
Share in result of associates	500	234					500	234
Revaluation of available-for-sale financial assets			880	1,360			880	1,360
Dividend received	-145	-236					-145	-236
Sale of other associates	-411						-411	0
Loans					585	1,520	585	1,520
Exchange differences	-159	392					-159	392
<b>Balance at 31 December</b>	<b>10,225</b>	<b>10,440</b>	<b>11,302</b>	<b>10,422</b>	<b>3,643</b>	<b>1,892</b>	<b>25,170</b>	<b>22,754</b>

The available-for-sale financial assets relate to a 5.06% interest in N.V. Nederlandsche Apparatenfabriek 'Nedap'. This interest is valued at the stock exchange price on 31 December. The received dividend of € 433,000 (2015: € 423,000) is recorded as share in result of associates in the profit and loss account.

TKH owns the following relevant other associates:

Name of other associate	Place	Country	Ownership and control		Activity
			2016	2015	
Speed Elektronik Vertrieb GmbH	Schwelm	Germany	25.0%	25.0%	Telecom Solutions
INC Ltd.	Taipei	Taiwan	33.3%	33.3%	Telecom / Building Solutions
JenDiagnost GmbH	Kahla	Germany	0.0%	25.0%	Building Solutions
Linjator AB	Visby	Sweden	0.0%	40.0%	Telecom Solutions
NET Italia S.r.l.	Brescia	Italy	49.0%	49.0%	Building Solutions
Shin-Etsu (Jiangsu) Optical Preform Co. Ltd.	Jiangyin	PR China	12.5%	12.5%	Telecom Solutions
Star Industry Ltd.	Hong Kong	PR China	0.0%	40.0%	Building Solutions
Commend Australia Integrated Security and Communication Systems Pty Ltd.	Melbourne	Australia	49.0%	49.0%	Building Solutions

During the year the minority interests in JenDiagnost GmbH, Linjator AB and Star Industry Ltd. have been sold. Despite the 12.5% interest in the company Shin-Etsu (Jiangsu) Optical Preform Co. Ltd., TKH has significant influence over the financial and operating policies. The associate is an important manufacturer of preforms for TKH, which are necessary for the production of fiberglass. The strategic shareholding is linked to a right to 50% of the production capacity of this plant. TKH provides one of the three Supervisory Board members.

The overview below shows the summarized financial information of the other associates on the basis of the most recent available information, where the financial data are included based on the share of interest in these companies. The information provided is based on local accounting principles.

In thousands of euros	Assets	Liabilities	Turnover	Net result	Other comprehensive income	Share in result of associates
Summarized financial information 2016	9,551	1,701	7,346	430	-159	500
Summarized financial information 2015	10,068	3,358	6,208	106	392	234

## 7 INVENTORIES

In thousands of euros	2016	2015
Raw materials	54,333	52,700
Work in progress	25,963	21,757
Finished goods	126,653	119,783
<b>Inventories</b>	<b>206,949</b>	<b>194,240</b>

An amount of € 620.9 million is reported in the profit and loss account for costs of raw materials, consumables and subcontracted work (2015: € 653.2 million). A part of inventories is valued at lower net realizable value. The book value of these written-down inventories is € 13.4 million (2015: € 14.5 million). The total write-down on inventories, based on aging analysis, in 2016 recognized in the profit and loss account is € 1.6 million (2015: € 0.6 million).

## 8 RECEIVABLES

In thousands of euros	Notes	2016	2015
Trade accounts receivable		<b>173,744</b>	<b>154,676</b>
Allowance for doubtful debts		-7,989	-8,857
		<b>165,755</b>	<b>145,819</b>
Derivatives	21	917	276
Receivables from related parties	35	492	449
Prepayments and accrued income		7,321	7,879
Other receivables		18,482	15,954
<b>Receivables</b>		<b>192,967</b>	<b>170,377</b>

TKH applies non-recourse factoring that transfers the ownership of the trade receivables and the associated risks to a factoring company. At the end of 2016 receivables with an amount of € 45.1 million are sold to a factoring company (2015: € 43.0 million).

The aging analysis of trade receivables of which the payment term has expired, but which have not been impaired, is stated below. In this overview, the other receivables have not been included, because they are not material. The shown terms are starting from due date.

In thousands of euros	2016	2015
60 - 90 days	5,897	4,231
90 - 180 days	5,802	5,672
180 - 365 days	2,290	2,835
Older than 365 days	2,323	421
<b>Payment term expired and not impaired</b>	<b>16,312</b>	<b>13,159</b>
Payment term not expired and not impaired	149,443	132,660
<b>Trade accounts receivable minus allowance</b>	<b>165,755</b>	<b>145,819</b>

The trade receivables are non-interest bearing and generally have a payment term between 14 and 90 days. Credit risk is further described in note 21.

The movement of the allowance for doubtful debts is as follows:

In thousands of euros	2016	2015
<b>Balance at 1 January</b>	<b>8,857</b>	<b>7,360</b>
Additions	530	2,138
Acquisitions		316
Withdrawal	-1,368	-989
Exchange differences	-30	32
<b>Balance at 31 December</b>	<b>7,989</b>	<b>8,857</b>

## 9 AMOUNTS DUE FROM (TO) CUSTOMERS UNDER CONSTRUCTION CONTRACTS

In thousands of euros	2016	2015
Amounts to be invoiced to contract customers, stated under receivables	100,568	74,160
Amounts due to contract customers, stated under current liabilities	-45,794	-54,136
	<b>54,774</b>	<b>20,024</b>
Construction contracts incurred plus recognized profits and losses	411,835	451,070
Less: invoiced amounts	-357,061	-431,046
	<b>54,774</b>	<b>20,024</b>

The amounts are expected to be settled within twelve months. At 31 December 2016 advance payments and performance guarantees have been provided to customers for a total amount of € 52.0 million (2015: € 47.1 million). These guarantees have been reported under contingent liabilities (note 22).

## 10 CASH AND CASH EQUIVALENTS

In thousands of euros	2016	2015
Cash and bank balances as included in the cash flow statement	58,704	64,701
Cash and bank balances in cash pools	29,792	114,254
<b>Cash and bank balances</b>	<b>88,496</b>	<b>178,955</b>

The cash and bank balances are free on hand.

## 11 ASSETS HELD FOR SALE

In thousands of euros	2016	2015
Balance at 1 January	0	3,050
Sold		-3,050
<b>Balance at 31 December</b>	<b>0</b>	<b>0</b>

The assets held for sale are related to part of the land and buildings in Lochem (the Netherlands), which has been sold in 2015.



## 12 EQUITY

The group equity is equal to the shareholders' equity. See the consolidated statement of changes in equity for a breakdown of the group equity and the disclosure notes to the company only financial statements.

## 13 NON-CONTROLLING INTEREST THIRD PARTIES

At the following subsidiaries that are or were not fully owned by TKH during the year at any time, there are material third party non-controlling interests:

Name subsidiary	Place	Country	Ownership and control non-controlling interests		Result non-controlling interests		Cumulated non-controlling interests	
			2016	2015	2016	2015	2016	2015
Commend International GmbH	Salzburg	Austria	74.0%	74.0%	1,250	1,863	7,378	7,593
Other					350	319	1,142	977
<b>Total</b>					<b>1,600</b>	<b>2,182</b>	<b>8,520</b>	<b>8,570</b>

Beginning of January 2015 a 74% interest in Commend International has been obtained whereby a non-controlling interest of 26% has been taken into account in the consolidation. A put-option has been provided to the holder of the non-controlling interest in Commend International. This option will start at 1 January 2017 and ends at 31 December 2017. This option gives the minority shareholder the right to sell the shares to TKH for an amount of € 9.0 million. TKH accounted in 2015 for the financial liability for the put-option associated with the acquisition of Commend International. This financial liability is at that time charged to the general reserves in equity.

In the overview below the summarized financial information of material non-controlling interest is shown:

In thousands of euros	Commend International GmbH	
	2016	2015
Non-current assets	20,665	15,602
Current assets	14,166	19,819
Shareholders' equity	28,411	29,203
Non-current liabilities	4,153	3,596
Current liabilities	2,268	2,622
Total turnover	30,922	31,095
Operating result	6,447	9,231
Net result	4,807	7,164
Total comprehensive income for the period (net of tax)	-58	0
Dividends to shareholders of non-controlling interests	1,451	0

## 14 PROVISIONS

In thousands of euros	Notes	2016	2015
Deferred tax liabilities	16	52,660	51,127
Pensions	17	7,957	7,204
Other long-term provisions		5,914	3,700
Other short-term provisions		7,302	9,328
<b>Provisions</b>		<b>73,833</b>	<b>71,359</b>

The provisions for tax and pensions are in general long-term.

The specification and movement of the other provisions is as follows:

In thousands of euros	Warranty	Employee liabilities	Restructuring	Other	Total
<b>Balance at 1 January 2016</b>	<b>8,587</b>	<b>2,187</b>	<b>2,015</b>	<b>239</b>	<b>13,028</b>
Additions	940	424	191	433	1,988
Acquisitions	1,927				1,927
Withdrawal	-1,888	-96	-1,853		-3,837
Reclassification	38				38
Exchange differences	68	4			72
<b>Balance at 31 December 2016</b>	<b>9,672</b>	<b>2,519</b>	<b>353</b>	<b>672</b>	<b>13,216</b>

In thousands of euros	2016	2015
Term shorter than 1 year	7,302	9,328
Term between 1 and 5 years	4,025	2,060
Term longer than 5 years	1,889	1,640
<b>Other provisions</b>	<b>13,216</b>	<b>13,028</b>

The long-term provisions have been discounted. The increase of the provision as a result of expiration of time and adjustment of the discount rate is minor. The short-term provisions have not been discounted since the effect is not material. The short-term part of the provision is mainly related to warranties.

### Provision for warranties

The provision for warranties is related to warranties issued contractually on products and services supplied. The purpose of the provision is to cover costs arising if products and services supplied do not meet the agreed specifications and quality requirements under normal conditions of use. The provision is based on estimates made on the basis of historic warranty data relating to comparable products and services. In general the recorded liabilities are expected to arise in the next one to three years.

The increase in the provision for warranties through acquisitions is related to the acquisition of the airfield lighting activities of Hella KGaA Hueck & Co. ('HELLA'). The costs arising from warranty claims can be settled with HELLA for an important part. The risk for TKH is capped at a certain amount. The receivable on HELLA associated with this warranty liability is included under the financial non-current assets.

### Employee liabilities

The provision for employee liabilities mainly relates to defined jubilee arrangements and is in general long-term.

### Restructuring liability

The restructuring provision relates mainly to the lay-off of employees. The liability will be settled within one year.

### Other provisions

The other provisions relate to claims, matters of dispute, warranties which are expected to be claimed and other contractual obligations. These liabilities consist of amounts at which a conviction by an independent party will probably lead to compensation. The recognized provisions have been based on the best estimate, made on the basis of currently available information and will mainly have a term no longer than one year. There is no asset recognized for expected compensation fees in relation to the reported provisions.

## 15 FINANCIAL LIABILITIES

The movement of the financial liabilities is as follows:

In thousands of euros	Notes	Earn-out and squeeze-out	Put options of shareholders of non-controlling interests	Total
<b>Balance at 1 January 2016</b>		<b>8,981</b>	<b>17,685</b>	<b>26,666</b>
Payment for acquisitions and non-controlling interests from previous years		-435	-310	-745
Divestment of subsidiaries	37		-2,467	-2,467
Change in value through profit & loss account		-401	-212	-613
Exchange differences		-22	53	31
<b>Balance at 31 December 2016</b>		<b>8,123</b>	<b>14,749</b>	<b>22,872</b>
			<b>2016</b>	<b>2015</b>
Term shorter than 1 year			13,217	577
Term between 1 and 5 years			9,060	25,123
Term longer than 5 years			595	966
<b>Financial liabilities</b>			<b>22,872</b>	<b>26,666</b>

### Earn-out and squeeze-out

For several acquisitions, contractual arrangements have been made about earn-out payments, when certain targets are realized. The liability for earn-out payments has been determined on the basis of expected fair value of the future cash outflows. The terms of the earn-outs are contracted and an amount of € 0.9 million will expire within one year. An amount of € 0.6 million has a term of more than five years. The payment of earn-out arrangements relates to EFB Nordics A/S and costs for the squeeze-out. Among the financial liability for earn-out, a financial liability is also included for legal proceedings received from former minority shareholders of Augusta Technology AG related to the compensation payment for the squeeze-out merger. A possible compensation above the already paid squeeze-out compensation of € 31.15 per share will be payable in respect of 969,375 shares. On 8 February 2017 the District Court in Munich has given a verdict in which the court set the compensation at € 33.37 per share and obliged TKH to reimburse the expenses of legal proceedings. The minority shareholders have four weeks to appeal. In the recorded financial liability is included the additional compensation and the directly to the proceeding related legal expenses. The expenses during the year relate directly to the proceeding related legal expenses. It is expected that this obligation has a maturity between one and five years.

### Put-options of shareholders of non-controlling interests

TKH has option rights on several non-controlling interests held by local management of subsidiaries of TKH. Besides, TKH has a liability to buy these shares when local management decides to offer these shares. A financial liability has been recognized for this obligation based on the expected discounted value of the future cash outflows. It concerns the following option rights and liabilities:

Name of subsidiary	Percentage	Option exercisable as from
EFB Nordics A/S	10.0%	1 January 2014
USE System Engineering B.V.	25.0%	1 January 2014
Ithaca S.A.	25.0%	1 November 2016
Mextal B.V.	5.0%	1 January 2019
Commend International GmbH <sup>1</sup>	26.0%	1 January 2017 until 31 December 2017
Pantaflex B.V.	5.6%	1 January 2017
Dewetron America Inc.	5.0%	1 January 2017
Flexposure B.V.	30.0%	1 January 2019
TKH Parking Technology B.V.	49.0%	1 January 2019

<sup>1</sup> TKH does not have an option right to acquire the shares held by the minority shareholder. See also note 13.

The expected maturity of the above mentioned liabilities is equal to the period as from 31 December 2016 till the first possibility to exercise. The amount to be paid depends on the future results of the aforementioned subsidiaries. The year of the cash outflow is dependent on a decision to exercise by TKH or the option owner. An amount of € 12.3 million has a maturity of shorter than one year.

## 16 DEFERRED TAX

The deferred tax assets and liabilities relate to the following items of which the movements are also shown:

In thousands of euros	Land and buildings	Intangible non-current assets	Inventories and construction contracts	Tax write-down of loans	Provisions	Unused tax losses and credits	Financial instruments	Undistributed intragroup profits	Other	Total
<b>Balance at 31 December 2014</b>	<b>413</b>	<b>-30,476</b>	<b>-6,246</b>	<b>-7,229</b>	<b>913</b>	<b>5,342</b>	<b>1,273</b>	<b>-1,564</b>	<b>205</b>	<b>-37,369</b>
(Charge)/credit to other comprehensive income							51			51
(Charge)/credit to profit or loss	-2,160	6,797	3,604	3,168	-277	-3,092		-1,867	-1,188	4,985
Acquisitions		-7,014	-228	-175					196	-7,221
<b>Balance at 31 December 2015</b>	<b>-1,747</b>	<b>-30,693</b>	<b>-2,870</b>	<b>-4,236</b>	<b>636</b>	<b>2,250</b>	<b>1,324</b>	<b>-3,431</b>	<b>-787</b>	<b>-39,554</b>
(Charge)/credit to equity									151	151
(Charge)/credit to other comprehensive income					107		-448			-341
(Charge)/credit to profit or loss	-983	-242	-93	3,001	858	7,706		-4,755	2,413	7,905
Disposals		103								103
Acquisitions		-318			162					-156
<b>Balance at 31 December 2016</b>	<b>-2,730</b>	<b>-31,150</b>	<b>-2,963</b>	<b>-1,235</b>	<b>1,763</b>	<b>9,956</b>	<b>876</b>	<b>-8,186</b>	<b>1,777</b>	<b>-31,892</b>

Certain deferred tax assets and liabilities have been offset in accordance with the applicable principles in IFRS. The deferred tax assets and liabilities are recognized in the balance sheet as follows:

In thousands of euros	Notes	2016	2015
Deferred tax assets stated under non-current assets		20,768	11,573
Deferred tax liabilities stated under non-current liabilities	14	-52,660	-51,127
<b>Deferred taxes</b>		<b>-31,892</b>	<b>-39,554</b>

TKH has unused tax losses, which have not been recognized because realization is uncertain. These unused tax losses can be compensated with future profits. Based on current tax legislation, these unused and unrecognized tax losses have the following terms:

In thousands of euros	2016	2015
Term infinite	15,476	9,124
Term longer than 10 years	984	11,812
Term between the 5 and 10 years	1,884	8,429
Term shorter than 5 years	1,906	2,816
<b>Unrecognized tax losses and tax credits</b>	<b>20,250</b>	<b>32,181</b>



## 17 PENSIONS

### Defined contribution plans

In addition to the industry pension schemes, TKH has pension schemes which have been included in a group pension contract with the external pension company Nationale Nederlanden. Nationale Nederlanden guarantees that the accrued pensions will be paid out for life to the relevant participants, of course subject to the condition that TKH has met its pension premium payment obligations. In the since 2014 harmonized pension arrangement there is an accrual of claims up to a certain salary threshold, above the threshold there is a defined contribution plan. The contributions contain no elements that are related to the past. A fixed agreed percentage of the annual premiums are paid into a deposit for indexation. From this, future conditional indexations can be financed.

The amount of the annual indexation will depend on the balance of the indexation depot, the price/wage inflation and the decision of TKH in this regard. TKH will not, however, make any additional payments for the purpose of indexation next to the annual set agreed raise on the premiums, but will also not be able to withdraw funds from the indexation depot for its own benefit. In this form of conditional indexation and financing, no actuarial risks are carried by TKH and as such the revised pension plan qualifies as a defined contribution plan.

The employees of the foreign subsidiaries are members of industry or state-managed pension plans. The subsidiaries are only required to pay a certain percentage of the salary costs to the concerning state managed pension plans. These pension schemes classify as defined contribution plan. As from 2015 the pension schemes in the Netherlands, to the extent not already covered by the industry pension schemes, classify as defined contribution plans as described above. The total pension expense recognized in 2016 related to the defined contribution plans amounts to € 9.6 million (2015: € 9.4 million). The industry pension plans are included in this pension expense. TKH expects for 2017 a pension expense of € 10 million for defined contribution plans.

### Defined benefit plans

#### Terminated defined benefit and top-up pension plans

Until 31 December 2014, TKH had defined benefit and top-up pension plans in the Netherlands besides the pension schemes covered by the industry pension schemes. The plans differed from one subsidiary to another and related to average salary schemes. For these pension schemes TKH had a group pension contract with external pension company Nationale Nederlanden. The pension agreement concerned a so-called guaranteed contract. The accrued pension and the indexation depot until 2014 will remain, where TKH has no payment obligations or obligation to fund shortages. Only in the case of outgoing value transfers there is a possibility that Nationale Nederlanden charges TKH related to the accruals in the period until 31 December 2014. Due to the right of legal value transfer, this may be associated with additional payments from the employer. This risk is, in line with the valuation methodology in the past, not included in the valuation. However this is the reason that, for these plans, a gross-pension obligation is recorded. The fund investments for these obligations are equated to the defined benefit obligation. Any additional payments will be taken in the year they occur.

### Multi-employer union plans

Approximately 1,550 employees of TKH in the Netherlands participate in the multi-employer union plans of 'Pensioenfonds van de Metalektro' ('PME') and 'Pensioenfonds Metaal & Techniek' ('PMT') as determined in accordance with the collective bargaining agreements effective for the industry in which the TKH companies operate. These collective bargaining agreements have no expiration date. PME covers approximately 1,300 companies and 313,000 participants and PMT approximately 33,000 companies and 1,240,000 participants. TKH's contribution to the multi-employer union plans are less than 5% of the total contribution to the plans according to their annual reports 2016. The pension funds monitor their risks on a global basis, not by company or employee, and are subject to regulation by Dutch governmental authorities. By law (the Dutch Pension Act), a multi-employer union plan must be monitored against specific criteria, including the coverage ratio of the plan assets to its obligations. The required coverage ratio is 121% for PME and 121% for PMT. If it is anticipated that this level is not reached within the statutory maximum period of 10 years using all available control tools, industry pension funds can shorten the pensions. The level of (average) premiums charged by PME and PMT are fixed for the period 2015-2019, and is not regarded as a management tool by both industry pension funds. The CAO parties already agreed to cut the pension if the (average) premium would be inadequate in the period 2015-2019 to meet the regulatory requirements of the coverage ratio. The level of (average) premium for all participating companies the same and depending on the pensionable salaries and is chosen such that the expected contribution as a percentage of pensionable salary during this period remains the same. The pension rights of each employee are based upon the employee's average salary during employment (depending on coverage). The multi-employer union plans have reported the following coverage ratio at year-end:

	2016	2015
coverage ratio of PME	91.8%	97.7%
coverage ratio of PMT	92.8%	98.5%

The coverage ratio is calculated by dividing the plan assets by the total sum of pension liabilities, which is based on actual market interest. The coverage ratio is the average coverage ratio over the past 12 months. Because of the low coverage ratio PME and PMT prepared and executed a so-called 'Recovery plan' which was approved by De Nederlandsche Bank, the Dutch central bank, which is the supervisor of all pension companies in the Netherlands. Due to the low coverage ratio there will be no indexation applied to the pensions and the risk on lowering the pensions in the future is increased. There are no additional contribution requirements for participating companies to prevent indexation cuts or lowering of pensions. The height of the premium as a percentage of salary has been determined and set for the period up to and including 2019.

A contingent liability may arise from, for example, possible actuarial losses relating to other participating companies because each company that participates in a multi-employer plan shares in the

actuarial risks of other participating companies or any responsibility under the terms of a plan to finance any shortfall in the plan if other companies cease to participate. The plan thus exposes the participating companies to actuarial risks associated with current and former employees of other companies with the result that no consistent and reliable basis for allocating the pension obligation, plan assets and cost to individual companies participating in the plan exists. TKH accounts for the multi-employer plans as if it were defined contribution plans as the managers of the plan, PME and PMT, stated that its internal administrative systems do not enable PME and PMT to provide TKH with the required company-specific information in order to account for the plan as a defined benefit plan. TKH's net periodic pension cost for the multi-employer plan over a financial period is equal to the required contribution for that period.

#### Other pension schemes

There are some individual defined benefit plans abroad for a small number of participants. These defined benefits are accrued in the subsidiaries and are not covered by plan assets. The term of the defined benefit obligations of these arrangements will be, on average, 19 years at 31 December 2016. Furthermore, there is legislation for the Austrian employees obligating to pay a onetime compensation at the end of the employment for employees working for the subsidiary as from 1 January 2003. The amount of compensation depends on the years of service and the average salary in the last 3 years of service.

The actuarial calculations for the Dutch pension schemes related to the accrued pension at Nationale Nederlanden are made by actuaries of Willis Towers Watson. The following assumptions have been applied in the actuarial calculations:

	2016	2015
Discount rate before tax	1.90%	2.30%
General percentage salary increase	n.a.	n.a.
Percentage salary increase by career-development	n.a.	n.a.
Cost of living adjustment for active participants	n.a.	n.a.
Cost of living adjustment for inactive participants	n.a.	n.a.
Inflation	n.a.	n.a.
Mortality table	AG 2016	AG 2014

The discount rate is based on the Rate:Link-method developed by Willis Towers Watson. The Rate:Link-method is determined based on all available information of AA-bonds.

The following amounts are recognized in the balance sheet with respect to all defined benefit pension plans, including the terminated Dutch defined benefit and top-up pension plans:

In thousands of euros	2016	2015
Present value of the defined benefit obligations	85,983	79,731
Fair value of the plan assets	-78,024	-73,674
<b>Net pension obligation</b>	<b>7,959</b>	<b>6,057</b>
Net pension obligations included under current (liabilities)/receivables	-2	1,147
<b>Net pension obligations included under provisions</b>	<b>7,957</b>	<b>7,204</b>

The following amounts are recognized in the profit and loss account with respect to the defined benefit plans:

In thousands of euros	2016	2015
Current service costs	272	478
Interest costs included in financial expenses	1,770	1,794
Interest revenue on plan assets included in financial expenses	-1,647	-1,636
Administration costs	34	14
Past service costs and curtailments		-1,991
<b>Pension expense in profit &amp; loss account</b>	<b>429</b>	<b>-1,341</b>

For 2017 TKH expects to pay a pension premium of € 0.5 million (including contributions from participants) related to the defined benefit plans.

The change in the present value of the defined benefit plan obligations is as follows:

In thousands of euros	2016	2015
<b>Balance at 1 January</b>	<b>79,731</b>	<b>84,020</b>
Current service costs	272	478
Past service costs and curtailments		-4,403
Interest costs included in financial expenses	1,770	1,794
Contributions from participations		23
Actuarial (gains)/losses recognized through other comprehensive income	6,292	-1,066
Entitlements paid	-2,190	-2,106
Acquisitions	108	991
<b>Balance at 31 December</b>	<b>85,983</b>	<b>79,731</b>

The relatively high actuarial loss is mainly caused by the reduction in the discount rate. There are no plan assets, but in stead insurance contracts which are fully related to terminated Dutch pension plans. The value of these insurance contracts is equal to the defined benefit obligation plus the sum of the current account. The change in the fair value of the plan assets is as follows:

In thousands of euros	2016	2015
<b>Balance at 1 January</b>	<b>73,674</b>	<b>77,044</b>
Interest revenue on plan assets included in financial expenses	1,647	1,636
Administration costs	-34	-14
Remeasurement gains/(losses) recognized through other comprehensive income	5,651	-1,245
Contributions by employer	-1,114	422
Contributions from participations		23
Entitlements paid	-1,800	-1,780
Revised arrangements		-2,412
<b>Balance at 31 December</b>	<b>78,024</b>	<b>73,674</b>

Changes in the assumptions have consequences for the present value of the defined benefit obligation. However, most of the defined benefit obligations (90%) are not sensitive to inflation, salary increases, disability chances and dismissal chances because future accrued pensions and possible conditional indexation are covered by the new pension scheme, which is classified as a defined contribution plan. Because in the terminated Dutch pension plans the fund investments have been equated to the gross obligations in the revised pension arrangements, the sensitivity analysis should take the net impact into account. Lower market interest rates and higher life expectancy will increase the possible additional payment (expenses) in case of outgoing value transfers.

## 19 BORROWINGS

In thousands of euros	Notes	Terms	Interest	2016	2015
				Amount	Amount
Liabilities reported under non-current liabilities	18	5.1 years	Euribor + margin	210,108	222,150
Borrowings reported under current liabilities		< 1 year	Euribor/Libor + margin	51,992	126,234
Cash- and cash equivalents	10	< 1 year	Euribor/Libor - margin	-88,496	-178,955
<b>Net interest bearing liabilities</b>				<b>173,604</b>	<b>169,429</b>

At year-end 2016, € 29.8 million of the borrowings forms part of balance and interest schemes (2015: € 114.3 million). The interest on the borrowings is variable and based on Euribor or Libor. The credit margins differ per credit institution and country and vary from 1.0 to 2.0%. The material

In the summary below a sensitivity analysis on the gross and net defined benefit obligation is shown when there is an absolute change of 1% in the relevant assumptions:

	2016		2015	
	+1.0%	-1.0%	+1.0%	-1.0%
Discount rate	-981	1,242	-809	732
General percentage salary increase	714	-597		
Mortality table	230	-228		

## 18 NON-CURRENT LIABILITIES

In thousands of euros	Notes	2016	2015
Debts to credit institutions	19	210,108	222,150
To be amortized transaction costs for the credit facility			-677
Loans from related parties		1,111	
R&D loans		1,868	1,600
Other non-current liabilities		826	
		<b>213,913</b>	<b>223,073</b>

The credit margin on the non-current debts to credit institutions is variable and dependent on the net-interest bearing debt/EBITDA, including the amount of the draws from the credit facility. On average the margin is 1.5%. The interest on bank loans is variable and based on Euribor or Libor. The material subsidiaries are guarantor for the obtained financing. No additional securities were provided, except a mortgage of € 0.2 million on one building. See note 21 for more details on the capital and liquidity risk.

subsidaries are guarantor for the obtained financing. No special securities were provided. See note 21 for more details on the capital and liquidity risk.

## 20 TRADE PAYABLES AND OTHER PAYABLES

In thousands of euros	Notes	2016	2015
Trade creditors		162,735	133,598
Advance receipts		1,998	2,934
Other taxes and social insurance contributions		15,068	10,361
Derivatives	21	4,422	5,364
Other payables and accruals		63,949	57,100
<b>Trade payables and other payables</b>		<b>248,172</b>	<b>209,357</b>

The other payables and accruals relate to, among others, personnel bonuses to be paid, commissions, customer discounts, holidays and holiday allowances as well as accruals for invoices to be received.

## 21 FINANCIAL INSTRUMENTS AND RISKS

### General

The main financial risks faced by TKH relate to the capital and liquidity risk, interest risks, currency risks, credit risks and price risks. TKH's financial policy is aimed at minimizing the effects of fluctuations in currency exchange and interest rates on its results in the short term and following market rates in the long term. TKH uses derivatives to manage the financial risks relating to the business operations and does not undertake speculative positions. For financial risks and the control of these risks is referred to the chapter 'Risk management' in the annual report.

### Capital and liquidity risk

TKH has a committed revolving and standby credit facility of € 350 million with a group of banks. The revolving and standby credit facility has a high flexibility in relation to utilizations and repayments. End of 2016 a modified and committed revolving and standby credit facility has been negotiated with the banking group, which was formalized in January 2017. The amended agreement will have a maturity until mid January 2022, with the possibility to extend twice with a year after the approval of the banks. In addition to the extension of the maturity and the reduction of interest margin also a number of conditions are amended that do justice to the growth and increased creditworthiness of TKH. Among other things, the interest coverage ratio as financial covenant was superseded. The revolving and standby credit facility has a high flexibility in relation to utilizations and repayments. In addition to the committed facility there are uncommitted facilities with several banks for a total of € 250 million. As at 31 December 2016, TKH has unused available credit facilities for a total of € 368 million (2015: € 331 million).

In the calculated available credit facilities the outstanding bank guarantees have been taken into account. The maximum credit facility per subsidiary is determined centrally.

In the amended credit facility the following financial covenant is agreed, which is monitored on a quarterly basis:

	Covenant	Realization 31-12- 2016	Realization 31-12- 2015
Net debt compared to EBITDA (debt leverage ratio)	< 3.0	1.0	0.9

It has been agreed with the banks that in the calculation of the debt leverage ratio the acquisitions may be consolidated pro forma for twelve months. Internally, TKH uses a debt leverage ratio up to 2.0. TKH operates by the end of 2016 within the banks' required covenant.



The following table provides an overview of the liquidity risk in the financial obligations of TKH at the end of 2016:

In thousands of euros	Average interest	Payable on demand	<3 months	>3 months <1 year	1-5 years	>5 years	Contractual cash flows	Book value
Non-current liabilities	1.6%		856	2,567	13,690	214,198	231,311	213,913
Financial liabilities				13,217	9,060	595	22,872	22,872
Borrowings	1.0%	52,122					52,122	51,992
Trade creditors			162,735				162,735	162,735
Other payables excluding derivatives			63,949				63,949	63,949
Interest rate swaps (derivatives)			553	1,643	394		2,590	2,663
Foreign currency forward contracts (derivatives)			18,546	33,089	4,324		55,959	917
Commodities (derivatives)			-31	-82	44		-69	-69
<b>Financial liabilities</b>		<b>52,122</b>	<b>246,608</b>	<b>50,434</b>	<b>27,512</b>	<b>214,793</b>	<b>591,469</b>	<b>518,972</b>

The following table provides an overview of the liquidity risk in the financial obligations of TKH at the end of 2015:

In thousands of euros	Average interest	Payable on demand	<3 months	>3 months <1 year	1-5 years	>5 years	Contractual cash flows	Book value
Non-current liabilities	1.8%		1,004	3,011	230,434		234,449	223,073
Financial liabilities				577	25,123	966	26,666	26,666
Borrowings	1.2%	126,613					126,613	126,234
Trade creditors			133,598				133,598	133,598
Other payables excluding derivatives			57,100				57,100	57,100
Interest rate swaps (derivatives)			515	1,546	2,401		4,462	4,603
Foreign currency forward contracts (derivatives)			11,340	13,983			25,323	231
Commodities (derivatives)			49	200	5		254	254
<b>Financial liabilities</b>		<b>126,613</b>	<b>203,606</b>	<b>19,317</b>	<b>257,963</b>	<b>966</b>	<b>608,465</b>	<b>571,759</b>

The cash flows in these statements are not discounted. The cash flows are based on the interest rates and the exchange rates at the end of the year. The cash flows for interest rate swaps are based on the contracted fixed interest rates compared to the variable interest rate at balance sheet date. The interest rate swap and commodity derivatives are net settled. Currency contracts are gross settled.

The following table shows the corresponding reconciliation of these amounts and their book value:

In thousands of euros	Payable on demand	<3 months	>3 months <1 year	1-5 years	>5 years	31-12-2016 Total
Incoming		18,349	32,401	4,309		55,059
Outgoing		-18,546	-33,089	-4,324		-55,959
Net	0	-197	-688	-15	0	-900
Discounted at current bank rates		-225	-676	-16		-917

In thousands of euros	Payable on demand	<3 months	>3 months <1 year	1-5 years	>5 years	31-12-2015 Total
Incoming		11,172	13,885			25,057
Outgoing		-11,340	-13,983			-25,323
Net	0	-168	-98	0	0	-266
Discounted at current bank rates		-66	-165			-231

### Interest risk

The interest risk policy aims at minimizing the interest rate risks associated with the financing of the company and thus at the same time optimizing the net interest costs. Long-term financing has been obtained with a floating-rate and will partly be fixed by means of interest rate swaps, whereby TKH aims to fix 40-70% of the interest associated with the borrowing. The following table provides an overview of the, for hedging purposes, agreed interest rate swaps:

In thousands of euros (unless stated otherwise)	Average interest rate		Nominal amount		Fair value	
	2016	2015	2016	2015	2016	2015
Maturity <1 year	2.30%		70,000		-1,876	
Maturity 1 and 2 years	1.28%	2.30%	25,000	70,000	-787	-3,585
Maturity 2 and 5 years		1.28%		25,000		-1,018
<b>Interest rate swaps (derivatives)</b>			<b>95,000</b>	<b>95,000</b>	<b>-2,663</b>	<b>-4,603</b>

Cash flow hedge accounting has been applied to all interest rate swaps mentioned above. There was no material ineffectiveness in relation to these hedges.

The following sensitivity analysis of borrowings, bank credits and cash and related interest rate swaps to interest rate movements assumes an immediate 1% change in interest rates for all currencies and maturities, with all other variables held constant.

A raise of the interest rates with 1% would result in:

- Additional interest costs of about € 0.8 million per year as a result of financing and cash with a floating interest rate (2015: € 0.8 million). The impact is reduced by existing interest rate swaps.
- An increase of the fair value of the financial instruments with about € 1.2 million (2015: € 2.1 million) as a result of the contracted interest rate swap. This raise would be recognized in the hedging reserves of the equity through the consolidated statement of comprehensive income.

## Currency risk

It is TKH general policy to hedge currency risks on purchases if these risks cannot be charged to the market. Purchase transactions in foreign currencies are hedged when the sales prices are already fixed in case of material transactions. Sales transactions in foreign currencies are fully hedged in case of material transactions. The main currencies that cause this exposure are the USD, CNY and CAD. Foreign currency forward contracts are applied to minimize the exposure of fluctuations in the currency rates. These contracts mainly have a term to maturity of less than one year. In addition

to the currency risk on the purchase and sale transactions, there is a currency risk resulting from the translation of net investments in TKH entities denominated in functional currencies other than euros. The main currencies that cause this exposure are the USD, CNY, CAD, AUD and PLN. These risks are partially hedged by financing these investments in local currency. The remaining risk is not hedged.

The carrying amounts of monetary assets and liabilities specified to currencies are as follows:

In thousands of euros	Euro		USD		CNY	Other currencies		Total		
	2016	2015	2016	2015	2015	2016	2015	2015		
Receivables	220,264	175,108	41,423	38,758	11,182	9,663	20,666	21,008	293,535	244,537
Cash and cash equivalents	44,617	135,395	19,864	21,114	11,768	12,224	12,247	10,222	88,496	178,955
Non-current liabilities	-213,913	-223,073							-213,913	-223,073
Current borrowings	-11,859	-95,022	-38,276	-28,795			-1,857	-2,417	-51,992	-126,234
Trade payables and other payables	-243,681	-224,180	-12,389	-11,153	-27,538	-16,773	-10,357	-11,389	-293,965	-263,495
<b>Total</b>	<b>-204,572</b>	<b>-231,772</b>	<b>10,622</b>	<b>19,924</b>	<b>-4,588</b>	<b>5,114</b>	<b>20,699</b>	<b>17,424</b>	<b>-177,839</b>	<b>-189,310</b>

On balance sheet date TKH has entered into foreign currency forward contracts:

In thousands of euros (unless stated otherwise)	Average exchange rate		Nominal amount in foreign currency			Fair value
	2016	2015	2016	2015	2016	2015
<b>Cashflow hedges of balance positions</b>						
Sell USD with settlement within 3 months	1.08	1.11	-6,621	-1,685	-163	-28
Sell USD with settlement between 3 months and 1 year		1.12		-1,406		-28
Buy USD with settlement within 3 months	1.06	1.09	3,338	130	26	
Buy USD with settlement between 3 months and 1 year		1.11		5,019		58
Buy CNY with settlement within 3 months	7.49	7.04	34,807	23,231	112	-35
Buy CNY with settlement between 3 months and 1 year	7.56	6.98	16,817	56,946	75	-195
<b>Cash flow hedges</b>						
Sell USD with settlement within 3 months	1.10	1.15	-4,719	-729	-200	-31
Sell USD with settlement between 3 months and 1 year	1.11		-22,050		-1,097	
Sell USD with settlement after 1 year	1.10		-2,418		-97	
Buy USD with settlement between 3 months and 1 year	1.11		264		13	
Buy USD with settlement after 1 year	1.10		2,225		81	
Buy CNY with settlement within 3 months		7.01		39,964		28
Buy CNY with settlement between 3 months and 1 year	7.56		73,382		333	
<b>Total</b>					<b>-917</b>	<b>-231</b>

Time differences between the settlement of the forward contracts and the sale and purchase contracts are anticipated by the use of foreign currency bank accounts or the rollover of forward contracts.

The translation risk on financial instruments, when the euro will decrease with 10% compared to all other currencies, with all other variables held constant, would be expected to have an influence of € 2.3 million positive on the result before tax (2015: € 2.1 million negative). In this calculation the foreign currency forward contracts are taken into account. The impact of this on the shareholders' equity is larger because of the net investments in foreign subsidiaries with another functional currency. The impact of this is approximately € 19.2 million positive (2015: € 16.9 million positive). An increase of the euro with 10% will have the opposite influence, namely a negative influence of € 2.3 million on the result before tax and a negative influence of € 19.2 million on equity.

### Price risk

An important raw material for TKH is copper. The price risk of copper is limited by a continuously monitoring of sales prices against the development of the purchase price where price changes are passed on to customers. Important raw materials such as copper, steel, aluminum and PVC are purchased with forward delivery contracts, to reduce the price risk on the sale of finished products, provided that:

- a sales contract with a fixed price has been entered into,
- delivery will not take place within one month, and
- an important quantity is required for production.

Next to physical purchases on long term against a fixed price in advance, TKH made limited use of derivatives to hedge price risks on free inventories and to fix purchase prices of copper regarding large sales orders with delivery times exceeding one month, if not covered by a long term purchase. On balance sheet date TKH has entered into the following derivatives for raw materials:

In thousands of euros (unless stated otherwise)	Average exchange rate		Amount on metric tons			Fair value
	2016	2015	2016	2015	2016	2015
<b>Cash flow hedges</b>						
Buy Copper with settlement within 3 months	4.31	4.96	28	60	27	-49
Buy Copper with settlement between 3 months and 1 year	4.78	4.16	263	371	82	-200
Buy Copper with settlement within 1 and 3 years	5.15	4.62	3,126	15	-44	-5
Buy Aluminium with settlement within 3 months	1.58		110		4	
Buy Aluminium with settlement between 3 months and 1 year	1.62		174		0	
<b>Total</b>					<b>69</b>	<b>-254</b>

A decrease of the copper price with 10% would have a negative impact of approximately € 2.2 million on the result (2015: € 1.6 million negative) if all other factors and conditions remain the same. This is caused by the free stock, for which price risk is not hedged, which is then sold at a lower price.

### Credit risk

The financial assets of the group mainly consist of cash, trade receivables and other receivables. The credit risk for cash and cash equivalents is outstanding at major international system banks. The credit risks mainly relate to trade receivables. However, it concerns a risk that is spread over a large number of customers that operate in several countries and in different markets. At balance sheet date there was no concentration of credit risk for material amounts. Part of the risk is insured at credit insurance companies. In addition, part of the risk is transferred to factoring companies. The credit risks insurances and factoring is in particular related to receivables on customers in the sub

segments connectivity systems and manufacturing systems. These customers are mainly located in the Netherlands, France, Germany and Asia. In addition, for large projects to foreign customers bank guarantees, advanced payments (towards a bank guarantee) or confirmed irrevocable 'Letter of Credit' are used. The maximum exposure to credit risk is represented by the carrying amounts of financial assets that are recognized in the balance sheet, including derivatives with a positive market value. There are no significant overdue account receivables that are not largely covered by insurances or guarantees or for which no provision has been recognized. A specification of the overdue account receivables has been recorded in note 8.



## 22 CONTINGENT LIABILITIES

Framework agreements have been concluded with some suppliers for the availability of some important raw materials. There are no long-term purchase obligations.

In thousands of euros	2016	2015
Bank guarantees provided to third parties	53,598	51,585
Purchase obligations arising from orders for tangible non-current assets	8,637	12,618

The investment obligations for tangible non-current assets mainly relate to the following:

- Increase of the production capacity in Lochem (Netherlands) with a production line for the isolation of subsea cables, while at the same time extension of the building is needed; and
- Enlargement of the production facility for tire manufacturing systems in Leszno (Poland).

These new facilities will be ready for production in the course of 2017.

In thousands of euros	2016	2015
<b>Operating lease and rent obligations</b>		
TKH has liabilities for the operating lease of cars and the rent of premises. Minimum operating lease and rent payments recognized as an expense during the year	19,079	15,296
At balance sheet date TKH has the following outstanding operating lease and rent obligations:		
Expiry date within 1 year	16,617	17,523
Expiry date between 1 and 5 years	41,601	39,867
Expiry date after 5 years	28,231	4,136
<b>Total</b>	<b>86,449</b>	<b>61,526</b>

### Claims

TKH and its subsidiaries are involved in a number of legal proceedings. According to the information currently available and legal advice received, TKH expects any adverse effects from the outcome of these legal proceedings to be adequately covered by other provisions or insurance. Claims against insurers have been recorded as receivables.

## 23 TURNOVER

In thousands of euros	2016	2015
Turnover from sales of goods and products	931,663	923,193
Turnover from construction contracts for third parties	406,853	448,845
Other operating income	2,468	3,114
<b>Total turnover</b>	<b>1,340,984</b>	<b>1,375,152</b>

TKH has no individual customers that represent 10% or more of the consolidated turnover. Other operating income relates to other services provided to third parties, such as rental and insurance payments.

## 24 INFORMATION BY SEGMENT

TKH Group is organized in three business segments: Telecom Solutions, Building Solutions and Industrial Solutions. The Solutions are based on the product/market combinations in which the TKH subsidiaries operate. In the overview of subsidiaries, as part of the other information, is shown in which of the solutions the different subsidiaries operate. In the annual report a detailed overview of the activities by business segment is shown. TKH reports its primary business segment information based on these solutions.

## Operating segments

In thousands of euros (unless stated otherwise)	Telecom Solutions		Building Solutions		Industrial Solutions		Unallocated revenues and costs			Total
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Turnover</b>										
External turnover	168,531	166,128	574,903	581,615	597,550	627,392		17	1,340,984	1,375,152
<b>Total turnover</b>	<b>168,531</b>	<b>166,128</b>	<b>574,903</b>	<b>581,615</b>	<b>597,550</b>	<b>627,392</b>	<b>0</b>	<b>17</b>	<b>1,340,984</b>	<b>1,375,152</b>
<b>Result</b>										
EBITA	17,877	15,774	62,406	64,639	79,543	84,847	-13,318	-13,729	146,508	151,531
ROS	10.6%	9.5%	10.9%	11.1%	13.3%	13.5%			10.9%	11.0%
Impairments	139		-1,883	-520	-98	-956	1,633		-209	-1,476
Amortization	-828	-703	-24,622	-25,277	-7,091	-5,531	-27	-104	-32,568	-31,615
<b>Segment operating result</b>	<b>17,188</b>	<b>15,071</b>	<b>35,901</b>	<b>38,842</b>	<b>72,354</b>	<b>78,360</b>	<b>-11,712</b>	<b>-13,833</b>	<b>113,731</b>	<b>118,440</b>

In thousands of euros (unless stated otherwise)	Telecom Solutions		Building Solutions		Industrial Solutions		Other and eliminations		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Other information</b>										
Investments in intangible and tangible non-current assets	12,214	10,235	44,891	85,835	20,386	22,709	560	180	78,051	118,959
Depreciation and amortization	3,370	3,967	33,763	33,090	17,198	15,676	346	269	54,677	53,002
Employees (FTE)	691	699	2,335	2,309	2,460	2,356	23	23	5,509	5,387
<b>Balance sheet</b>										
Assets	149,072	138,123	644,565	598,554	419,285	429,565	23,319	74,040	1,236,241	1,240,282
Other associates	7,375	6,908	2,847	3,532			3		10,225	10,440
<b>Consolidated total assets</b>									<b>1,246,466</b>	<b>1,250,722</b>
<b>Liabilities</b>	<b>36,626</b>	<b>35,468</b>	<b>155,844</b>	<b>134,240</b>	<b>189,812</b>	<b>169,878</b>	<b>281,664</b>	<b>381,719</b>	<b>663,946</b>	<b>721,305</b>

In thousands of euros (unless stated otherwise)	Non-current assets <sup>1</sup>			Turnover		Employees (FTE)	
	2016	2015	2016	2015	2016	2015	
<b>Geographic segments</b>							
Netherlands	228,804	209,627	251,290	259,662	35%	36%	
Europe (other)	277,507	278,391	611,567	604,470	42%	40%	
Asia	47,638	47,923	264,099	308,351	16%	17%	
North America	75,793	78,731	168,626	160,495	6%	6%	
Other	5,543	4,190	45,402	42,174	1%	1%	
<b>Total</b>	<b>635,285</b>	<b>618,862</b>	<b>1,340,984</b>	<b>1,375,152</b>	<b>100%</b>	<b>100%</b>	

<sup>1</sup> Non-current assets excluding deferred tax assets.

## 25 PERSONNEL EXPENSES

In thousands of euros	2016	2015
Wages and salaries	254,635	248,416
Share-based payments	1,774	2,529
Social insurance contributions	42,872	42,518
Pension costs	11,135	10,113
Defined benefit gains due to a change in pension plans		-1,991
Temporary labor	25,549	26,627
Capitalized development costs	-17,247	-15,265
Other personnel expenses	12,708	13,950
<b>Personnel expenses</b>	<b>331,426</b>	<b>326,897</b>

## 26 SHARE-BASED PAYMENTS

### Stock option scheme settled in equity instruments

Option rights to (depository receipts of) ordinary shares of TKH are granted to the management of the subsidiaries. The rights can never be exercised until after the publication of the company's annual results three calendar years following the year in which the rights were granted, and have an exercise period of two years. Partly to avoid abuse of inside knowledge, the conditions for participation have been laid down in an internal regulation and have been accepted in writing by the

participants. At the end of 2016 the company had bought back 660,575 (depository receipts of) shares to cover the option rights. These (depository receipt of) shares have been purchased against an average share price of € 32.15. The total purchase amount is € 21,238,766.

Overview of the number of outstanding option rights:

Year of allocation	Exercise rate in €	Number at 01-01-2016	Granted during the year	Expired during the year	Withdrawn during the year	Elapsed during the year	Exercised during the year	Number at 31-12-2016	Exercise period
2011	18.90	44,350		-600			-43,750	0	2014-2016
2012	18.23	86,413				-2,400	-34,748	49,265	2015-2017
2013	19.76	194,599				-3,100	-90,021	101,478	2016-2018
2014	25.30	240,685				-5,100		235,585	2017-2019
2015	31.44	303,617				-6,425		297,192	2018-2020
2016	33.92		350,000			-4,365		345,635	2019-2021
<b>Total</b>		<b>869,664</b>	<b>350,000</b>	<b>-600</b>	<b>0</b>	<b>-21,390</b>	<b>-168,519</b>	<b>1,029,155</b>	

No option rights are granted to the members of the Executive Board and Supervisory Board.

The average share price on the date at which the share options were exercised during the financial year was € 35.90. The options were granted on 8 March 2016. The estimated fair value of the options granted in 2016 is € 1,368,500. The fair value was determined on the basis of a binomial valuation model and the following principles:

	2016	2015
Fair value at the date of allocation (in €)	3.91	3.66
Expected volatility	22.4%	22.2%
Expected dividend	3.5%	3.5%
Risk free rate	-0.10%	0.20%
Expected period to expiry of the option (in years)	4.0	4.0

For the expected period to expiry of the options the current restrictions on their exercise, the chances that employees will leave the company and possible personal considerations of option holders were all taken into account. TKH has a reported total charge of € 1,094,817 (2015: € 925,528) for these share-based payments which have been settled in equity instruments.

#### Other share-based payments

Based on the share scheme, (depository receipts of) shares have been allotted to members of the Executive Board free of charge. During 2016 Mr J.M.A. van der Lof was allotted 17,493 (depository receipts of) shares, Mr E.D.H. de Lange 13,120, and Mr A. Dehn 10,754 (depository receipts of) shares related to the performance for the year 2015. At the same time, the Executive Board purchased respectively 17,493, 13,120 and 10,754 (depository receipts of) shares at the actual share price of € 34.27, all in accordance with the regulation of the share scheme. As a result of the share-based payments for the Executive Board, TKH has recognized a total charge of € 1,220,000 (2015: € 2,251,000) in the profit and loss account.

## 27 DEPRECIATION

	2016	2015
Depreciation of tangible non-current assets	22,819	22,588
Result on disposal of tangible non-current assets	-710	-1,256
Changes in fair value of investment property		55
<b>Depreciation</b>	<b>22,109</b>	<b>21,387</b>

## 28 AMORTIZATION

In thousands of euros	2016	2015
Amortization of intangible non-current assets	16,845	14,332
Amortization of intangible non-current assets from acquisitions as a result of "Purchase Price Allocations"	15,723	17,283
<b>Amortization</b>	<b>32,568</b>	<b>31,615</b>

## 29 IMPAIRMENT

In thousands of euros	Notes	2016	2015
Impairment of intangible non-current assets	3	855	1,823
Impairment of tangible non-current assets	4	487	
Badwill	36	-645	
Change in value of financial obligation for earn-out and put options of shareholders of non-controlling interests	15	-613	-347
Onerous contracts		125	
<b>Impairment</b>		<b>209</b>	<b>1,476</b>

## 30 OTHER OPERATING EXPENSES

Other operating expenses include overhead, selling, accommodation and manufacturing expenses.

## 31 RESEARCH AND DEVELOPMENT COSTS

The total operating expenses over the financial year include the following items:

In thousands of euros	2016	2015
Research and development costs	50,251	46,511
Less: Capitalized development costs	-23,653	-20,369
Add: Amortization of development costs	11,071	8,881
Add: Impairment on activated development costs	855	1,823
<b>Research and development costs accounted for in profit &amp; loss account</b>	<b>38,524</b>	<b>36,846</b>
Government subsidies for education and training costs	-1,994	-1,132



## 32 FINANCIAL INCOME AND EXPENSES

In thousands of euros	2016	2015
Exchange and translation differences, including the effect of realized cash flow hedges	-125	422
Amortized transaction costs	-677	-402
Interest costs in defined benefit plans	-38	-35
Interest income	1,814	2,234
Interest expenses	-8,629	-10,027
<b>Financial income and expenses</b>	<b>-7,655</b>	<b>-7,808</b>

The tax burden is calculated at the prevailing tax rates in each country. The tax burden over the year can be reconciled with the profit before tax as follows:

In thousands of euros (unless stated otherwise)	2016		2015	
<b>Result before tax</b>	<b>107,009</b>		<b>111,289</b>	
Tax calculated at the Dutch tax rate	26,752	25.0%	27,822	25.0%
<b>Correction due to tax effect for:</b>				
Tax participation exemption	-162	-0.2%	-63	-0.1%
Non deductible expenses	519	0.5%	1,349	1.2%
Non deductible interests	164	0.2%	53	0.0%
Other non deductible costs			136	0.1%
Untaxed gains	-360	-0.3%		
Advantages from tax facilities	-4,618	-4.3%	-5,719	-5.1%
Write off/recognition of deferred taxes	150	0.1%	-1,570	-1.4%
(Recognition)/derecognition of deferred tax asset for past unrecognized unused tax losses	-5,240	-4.9%	1,111	1.0%
Settlement of income tax returns for previous years	-378	-0.4%	-340	-0.3%
Differences in tax rates for foreign subsidiaries	2,918	2.7%	306	0.3%
Change in statutory tax rate	27	0.0%		
Other tax benefits	-70	-0.0%	-132	-0.1%
<b>Effective tax burden</b>	<b>19,702</b>	<b>18.4%</b>	<b>22,953</b>	<b>20.6%</b>

The benefits from fiscal facilities are mostly related to fiscal R&D facilities, including the Dutch 'innovatiebox'. The tax burden of 2016 includes a non-recurring charge of € 2.6 million for taxes payable in respect of transfer of foreign subsidiaries, where the legal structure has been simplified and more in line with our country structure. This charge is included in differences in tax rates for

## 33 TAX

In thousands of euros	Notes	2016	2015
Current tax		27,985	28,278
Adjustments for previous years		-378	-340
Deferred tax	16	-7,905	-4,985
<b>Total tax on profit</b>		<b>19,702</b>	<b>22,953</b>

foreign subsidiaries. On the other hand, the future realization of unused tax losses became more probable for several subsidiaries, for which deferred tax assets are recorded which resulted in a tax benefit of € 5.2 million. On balance, the non-recurring tax benefit was in total € 2,650,000.

## 34 EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

In thousands of euros (unless stated otherwise)	Notes	2016	2015
Weighted average number of (depository receipts of) shares (x 1,000)		42,004	41,579
Effect of share options (x 1,000)		210	259
<b>Weighted average number of (depository receipts of) shares diluted (x 1,000)</b>		<b>42,214</b>	<b>41,838</b>
Net profit		87,307	88,336
Less: Non-controlling interests		-1,600	-2,182
<b>Net profit attributable to the shareholders of the company</b>		<b>85,707</b>	<b>86,154</b>
Net profit		87,307	88,336
Amortization of intangible non-current assets from acquisitions		15,723	17,283
Taxes on amortization		-4,267	-4,690
<b>Net profit before amortization</b>		<b>98,763</b>	<b>100,929</b>
Less: Non-controlling interests		-1,600	-2,182
<b>Net profit before amortization attributable to the shareholders of the company</b>		<b>97,163</b>	<b>98,747</b>
Net profit before amortization		98,763	100,929
Impairments		209	1,476
Tax impact on one-off expenses and benefits		-367	-282
One-off tax benefit	33	-2,650	
		95,955	102,123
Less: Non-controlling interests		-1,600	-2,182
<b>Net profit before amortization and exceptional income and expenses attributable to the shareholders of the company</b>		<b>94,355</b>	<b>99,941</b>
Ordinary earnings per share before amortization and exceptional income and expenses (x1€) <sup>1</sup>		2.25	2.40
Ordinary earnings per share before amortization (x1€) <sup>1</sup>		2.31	2.37
Ordinary earnings per share (in €)		2.04	2.07
Diluted earnings per share (in €)		2.03	2.06

<sup>1</sup> Non IFRS compulsory disclosure.

## 35 RELATED PARTIES

### Trade transactions

During the year trade transactions with non-consolidated related parties have taken place. These transactions were concluded at market prices, taking into account discounts for volumes and the existing relationship between the parties.

The following transactions with related parties occurred during the year:

In thousands of euros	Sold to		Bought from		Trade receivables		Trade payables	
	2016	2015	2016	2015	2016	2015	2016	2015
Shin-Etsu (Jiangsu) Optical Preform Co. Ltd.			15,691	12,548			3,213	1,721
INC Ltd.			2,970	2,870		215	301	
Speed Elektronik Vertrieb GmbH		48	27	36	15	13		13
Commend Australia Integrated Security and Communication Systems Pty Ltd.	574	576			169	100		
Commend AG (Switzerland)	1,487				3			
Commend Österreich GmbH	3,039		4		73			
Commend Holding GmbH			9					
NET Italia S.r.l.	323	201			232	121		
JenDiagnost GmbH				187				2
IMI Technology Co. Inc.	23		126					
<b>Total</b>	<b>5,446</b>	<b>825</b>	<b>18,827</b>	<b>15,641</b>	<b>492</b>	<b>449</b>	<b>3,514</b>	<b>1,736</b>

### Shareholdings of members of the Executive Board and the Supervisory Board

Among the members of the Executive Board, Mr J.M.A. van der Lof owned 150,647 (depository receipts of) shares, Mr E.D.H. de Lange owned 97,529 (depository receipts of) shares and Mr A.E. Dehn owned 50,915 (depository receipts of) shares at the end of 2016. During the financial year Mr J.M.A. van der Lof sold 42,486 (depository receipts of) shares, Mr E.D.H. de Lange sold 26,240 (depository receipts of) shares and Mr A.E. Dehn sold 10,377 (depository receipts of) shares at a stock price of € 34.27, in accordance with the rules. In addition Mr J.M.A. van der Lof, Mr E.D.H. de Lange and Mr A.E. Dehn purchased under the share scheme respectively 17,493, 13,120 and 10,754 (depository receipts of) shares at a stock price of € 34.27. Of the Supervisory Board Mr A. De Prof owned 2,000 (depository receipts of) shares at the end of 2016.

### Remuneration key-management

The remuneration payable to the members of the Executive Board comprises a basic salary (TVI), pension and a variable element, comprising an annual performance bonus (STI) and a long-term bonus (LTI) scheme entailing a share scheme. The remuneration report is included in the Report of the Supervisory Board.

### Executive Board

In thousands of euros	Total regular income (TRI)		Bonus (STI)		Share scheme (LTI)		Pension		Compensation for pension premium		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015		
J.M.A. van der Lof MBA	445	438	182	224	582	1,074	31	18	101	102	1,341	1,856
E.D.H. de Lange MBA	334	328	137	168	345	637	14	14	33	27	863	1,174
A.E. Dehn	273	270	112	138	293	540	20	20	20	20	718	988
<b>Total remuneration</b>	<b>1,052</b>	<b>1,036</b>	<b>431</b>	<b>530</b>	<b>1,220</b>	<b>2,251</b>	<b>65</b>	<b>52</b>	<b>154</b>	<b>149</b>	<b>2,922</b>	<b>4,018</b>

## Supervisory Board

The remuneration of the Supervisory Board is as follows:

	Fixed fee	Committee fee	2016	2015
In thousands of euros				
H.J. Hazewinkel , chairman	47	6	53	53
M.E. van Lier-Lels, vice-chairman	36	8	44	44
P.P.F.C. Houben	36	8	44	44
R.L. van Iperen	36	6	42	42
A. de Proft Msc.	36		36	36
<b>Total remuneration</b>	<b>191</b>	<b>28</b>	<b>219</b>	<b>219</b>

## 36 ACQUISITIONS

During 2016 TKH acquired the following companies:

Name subsidiary	Country	Legal ownership and control	Consolidation as from	Activity
Assets of HELLA Airfield Lighting	Germany		31 July 2016	Connectivity systems (Building)
Induperm A/S	Denmark	100.0%	31 July 2016	Connectivity systems (Building)
BCT Electronics GesmbH	Austria	100.0%	1 August 2016	Vision & security systems (Building)

End of July 2016 TKH acquired a controlling interest in the airfield ground lighting activities of HELLA KGaA Hueck & Co. ('HELLA'). The acquired activities comprise a market leading Airfield Ground Lighting ('AGL') portfolio based on innovative LED technology. The acquisition strengthens the strategic activities of TKH in its vertical growth market Tunnel & Infra. TKH and HELLA have already been successfully cooperating in the development and design of the CEDD (Contactless Energy & Data Distribution) technology of TKH, whereby the lighting fixtures of HELLA are part of the solution. TKH has taken over the operating side Induperm A/S in Nykøbing Falster (Denmark) as well as main assets from HELLA in Lippstadt (Germany), including intellectual property rights for AGL products. These activities comprise an annual turnover of € 7 million with approximately 40 FTE in 2014/2015. The Airport Lighting activities are part of TKH's sub segment connectivity systems, within the business segment Building Solutions. It is expected that the activities will contribute to the profitability of the business segment Building Solutions as from 2018.

The acquisition of BCT Electronics GesmbH is a small acquisition. Through this acquisition a new developed intercom portfolio is acquired that fits with the existing portfolio of Commend. BCT realized a revenue of € 0.3 million with 6 FTE. The activities of BCT have been integrated in the Commend Group.

Beginning of January 2015 TKH acquired a controlling interest in the Commend Group, of which the head office is located in Salzburg (Austria). Commend is a leading technology company that develops and manufactures security and communication systems and is one of the largest providers in the field of high-end intercom systems worldwide. The activities of Commend strengthen TKH's sub segment vision & security and contribute to the profitability of the business segment Building Solutions.



Transactions in which a controlling interest has been acquired are accounted for according to the “purchase method of accounting”. The combined net assets acquired are comprised as follows:

In thousands of euros	Total acquisitions 2016			Total acquisitions 2015		
	Book value	Adjustments	Fair value	Book value	Adjustments	Fair value
Intangible non-current assets	14	1,326	1,340	13,486	25,049	38,535
Tangible non-current assets	288		288	1,713		1,713
Loans and receivables	1,166		1,166			0
Inventories	1,391		1,391	5,738	815	6,553
Receivables	618		618	10,299	626	10,925
Cash and cash equivalents			0	2,247		2,247
Pensions	-108		-108	-991		-991
Provisions	-1,927		-1,927	-170	-399	-569
Non-current liabilities			0	-1,912		-1,912
Deferred tax	162	-318	-156		-7,221	-7,221
Borrowings	-767		-767			0
Current liabilities	-504		-504	-5,112		-5,112
<b>Acquired net assets</b>	<b>333</b>	<b>1,008</b>	<b>1,341</b>	<b>25,298</b>	<b>18,870</b>	<b>44,168</b>
Non-controlling interests			0			-5,731
Badwill			-645			0
Goodwill paid			65			13,470
<b>Purchase price</b>			<b>761</b>			<b>51,907</b>
Cash and cash equivalents acquired			0			-2,247
<b>Purchase price paid</b>			<b>761</b>			<b>49,660</b>

The acquisitions are presented together due to the limited size. The fair value adjustments mainly relate to acquired intangible non-current assets such as intellectual property. The paid goodwill is attributable to the knowledge and experience of the workforce, expected synergy benefits due to intensification of the cooperation within the TKH Group and the alignment with the strategic development of TKH. The badwill is related to the acquisition of the AGL activities of HELLA and can be explained by the loss making activities, which were not fitting strategically within HELLA. Because the AGL market is dominated by just a few large providers and the AGL activities of HELLA only has a small market share, the interest from the market in these activities were limited. Opposite to the badwill is the loss of these activities which are included in the consolidated

financial statements 2016. The goodwill recognized from the acquisitions is not tax deductible. The badwill that is recognized as income is not taxable. The purchase price was fully paid in cash. Acquisition costs for external consultancy and legal fees are recognized in the operating result and are limited.

In 2016, the acquired and consolidated companies contributed with € 2.0 million turnover and € 0.1 million net result to the turnover and net result of TKH. The mentioned net result takes into account the badwill, financial expenses and amortization of intangible non-current assets related to the acquisition.

## 37 DISCONTINUED OPERATIONS

End of March 2016, TKH sold its 51% share in Parking & Protection B.V. ('P&P') to Interparking Netherlands B.V. in Rotterdam. P&P focuses on the management and operation of parking facilities, particularly in hospitals and urban environments. The activities were part of the Building Solutions business segment of TKH and were considered as non-core, whereas the focus of TKH is on developing advanced own technologies and offering total solutions. In 2015, P&P realized a turnover of € 5.7 million and a net income of € 0.3 million with 31 employees (FTEs). The result from the discontinued operations is nil. The transaction had no impact on the earnings per share of TKH.

## 38 NON-CASH TRANSACTIONS

There were no material non-cash transactions.

## 40 SERVICE FEES PAID TO EXTERNAL AUDITORS

The service fees paid to the external auditor EY, recognized as other operating expenses, can be specified as follows:

In thousands of euros	Ernst & Young Accountants LLP (Netherlands)		Other parts of EY		Total
	2016	2015	2016	2015	2015
Audit of the financial statements	717	707	482	400	1,107
Other auditing assignments	14				0
Tax consultancy			64	20	20
Other non-audit services			50		0
<b>Service fees external auditors</b>	<b>731</b>	<b>707</b>	<b>596</b>	<b>420</b>	<b>1,127</b>

The total services fees 2016 has been increased due to the transition of some foreign TKH subsidiaries from Deloitte to EY as a result of the transition to a new auditor started in 2015.

## 39 EVENTS AFTER BALANCE SHEET DATE

On 8 February 2017 the District Court in Munich has given a verdict in the squeeze-out procedure with the minority shareholders of Augusta Technologie AG. The court set the compensation fee at € 33.37 per share and obliged TKH to reimburse the costs of proceedings. This compensation is recorded as a financial liability. For more details is referred to note 15.

Besides the aforementioned event, no events of fundamental significance for insight into the financial statements and the preceding period occurred after balance sheet date.

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# COMPANY PROFIT AND LOSS ACCOUNT

In thousands of euros	Notes	2016	2015
<b>Net turnover</b>	14	<b>1,619</b>	<b>1,487</b>
Wages and salaries		7,004	7,967
Social insurance contributions		713	629
Depreciation		342	208
Badwill	14	-645	
Change in value of financial obligation for earn-out and put-options of shareholders of non-controlling interests		-988	-186
Other operating expenses <sup>1</sup>		5,606	5,067
<b>Total operating expenses</b>		<b>12,032</b>	<b>13,685</b>
<b>Operating result</b>		<b>-10,413</b>	<b>-12,198</b>
Financial income		11,641	13,001
Financial expenses		-9,501	-9,406
Exchange differences		330	-248
<b>Result before tax</b>		<b>-7,943</b>	<b>-8,851</b>
Tax on profit	15	-3,350	-267
<b>Company result</b>		<b>-4,593</b>	<b>-8,584</b>
Share in result of associates <sup>1</sup>		90,300	94,738
<b>Net result</b>		<b>85,707</b>	<b>86,154</b>

<sup>1</sup> After adjustment of comparative figures. The share in result of associates and other operating expenses have both been decreased by € 2.2 million. This has no impact on the net result.

# COMPANY BALANCE SHEET

As of 31 December before profit appropriation

In thousands of euros	Notes	2016	2015
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible non-current assets	2	48,545	52,381
Tangible non-current assets	3	762	634
Financial non-current assets	4	972,768	838,940
Deferred tax assets	5	2,450	1,183
<b>Total non-current assets</b>		<b>1,024,525</b>	<b>893,138</b>
<b>Current assets</b>			
Receivables from group companies		26,576	60,945
Other receivables	6	12,276	7,230
Cash and cash equivalents		2,753	49,902
<b>Total current assets</b>		<b>41,605</b>	<b>118,077</b>
<b>Total assets</b>		<b>1,066,130</b>	<b>1,011,215</b>

In thousands of euros	Notes	2016	2015
<b>Equity and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital		10,709	10,607
Share premium		85,021	85,123
Legal reserve		43,213	34,917
Revaluation reserve		415	874
Investments revaluation reserve		5,042	4,162
Translation reserve		21,603	20,920
Cashflow hedge reserve		-2,593	-3,637
Retained earnings		324,883	281,727
Unappropriated profit		85,707	86,154
<b>Total group equity</b>	7	<b>574,000</b>	<b>520,847</b>
<b>Provisions</b>			
Deferred tax liabilities	5	1,543	8,917
Financial liabilities	11	2,839	18,045
Provisions	10	4,250	5,644
<b>Total provisions</b>		<b>8,632</b>	<b>32,606</b>
<b>Non-current liabilities</b>			
Non-current liabilities		210,000	221,322
<b>Total non-current liabilities</b>		<b>210,000</b>	<b>221,322</b>
<b>Current liabilities</b>			
Borrowings	12	38,779	60,958
Payables to group companies		216,095	166,492
Financial liabilities	11	11,441	
Other current liabilities		7,183	8,990
<b>Total current liabilities</b>		<b>273,498</b>	<b>236,440</b>
<b>Total equity and liabilities</b>		<b>1,066,130</b>	<b>1,011,215</b>

# NOTES TO THE COMPANY FINANCIAL STATEMENT

## 1 ACCOUNTING PRINCIPLES

### General

For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its separate financial statements, TKH makes use of the option provided in Article 2:362 sub 8 of the Dutch Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result for the separate financial statements of TKH are the same as those for the consolidated financial statements. For a description of these accounting principles, reference is made to the accounting principles of the consolidated financial statements.

Investments in subsidiaries are valued at net asset value. The net asset value is determined on basis of the valuation principles, as described in note 1 of the consolidated financial statements. The net asset value of subsidiaries consists of cost price, exclusive goodwill, the share of TKH in the sum of the assets, liabilities and provisions of the subsidiary, plus the share in the result of the subsidiary since the takeover which is attributed to TKH, less the received dividends.

Due to a change in the law for public interest companies it is no longer permitted to present a condensed income statement in the company only financial statement (as previously permitted under Article 2:402 sub 2 of the Dutch Civil Code). Given the limited activities within TKH Group N.V. the impact of this adjustment is limited.

## 2 INTANGIBLE NON-CURRENT ASSETS

In thousands of euros	2016	2015	Goodwill
<b>Historical cost at 1 January</b>	<b>54,071</b>	<b>51,701</b>	
Accumulated amortization and impairment losses	1,690	1,690	
<b>Book value at 1 January</b>	<b>52,381</b>	<b>50,011</b>	
Acquisitions			2,410
Disposals	-3,143		
Exchange differences	-693		
Adjustment for put options held by shareholders of non-controlling interests			-40
<b>Book value at 31 December</b>	<b>48,545</b>	<b>52,381</b>	
Accumulated amortization and impairment losses	1,690	1,690	
<b>Historical cost at 31 December</b>	<b>50,235</b>	<b>54,071</b>	

## 3 TANGIBLE NON-CURRENT ASSETS

In thousands of euros	2016	2015	Other equipment
<b>Historical cost at 1 January</b>	<b>1,791</b>	<b>1,810</b>	
Accumulated depreciation and impairments	1,157	1,259	
<b>Book value at 1 January</b>	<b>634</b>	<b>551</b>	
Purchases	483	349	
Disposals	-13	-58	
Depreciation	-342	-208	
<b>Book value at 31 December</b>	<b>762</b>	<b>634</b>	
Accumulated depreciation and impairments	1,462	1,157	
<b>Historical cost at 31 December</b>	<b>2,224</b>	<b>1,791</b>	



## 4 FINANCIAL NON-CURRENT ASSETS

In thousands of euros	Consolidated subsidiaries		Other associates		Available-for-sale financial assets		Receivables from group companies		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Balance at 1 January</b>	<b>387,288</b>	<b>326,784</b>	<b>9,169</b>	<b>6,411</b>	<b>10,422</b>	<b>9,062</b>	<b>432,061</b>	<b>404,881</b>	<b>838,940</b>	<b>747,138</b>
Acquisition and/or incorporation of subsidiaries and associates	18,223	3,048		2,400					18,223	5,448
Acquisition of non-controlling interests charged to equity		-12,715							0	-12,715
Disposals	-1,620								-1,620	0
Capital contribution	7,021	20,475							7,021	20,475
Result	89,402	94,075	464	240					89,866	94,315
Revaluation of available-for-sale financial assets					880	1,360			880	1,360
Dividend received	-85,361	-49,272	-145	-218					-85,506	-49,490
Revaluations	-453								-453	0
Change in cash flow hedge reserves	-376	-454							-376	-454
Liquidation		-800							0	-800
Loans granted less repayments							19,680	22,339	19,680	22,339
Actuarial gains/(losses) from defined benefit plans	-547	1,779							-547	1,779
Reclassification from short-term to long-term receivables							87,461		87,461	0
Reclassification provision subsidiaries and associates	5,862	-2,359					-7,642	4,841	-1,780	2,482
Exchange differences	1,155	6,727	-176	336					979	7,063
<b>Balance at 31 December</b>	<b>420,594</b>	<b>387,288</b>	<b>9,312</b>	<b>9,169</b>	<b>11,302</b>	<b>10,422</b>	<b>531,560</b>	<b>432,061</b>	<b>972,768</b>	<b>838,940</b>

In 2016 TKH acquired, in addition to the acquisitions of Induperm and BCT, a direct share in several subsidiaries due to transfer of shares within the group structure. This explains the relatively high acquisition of € 18.2 million during the year. In the Other Information an overview of directly and indirectly held interests in group companies is included. In addition, the loan agreements with group companies have been renewed in 2016, in which the maturity is set between one and two years. This resulted in a reclassification from short-term to long-term receivables. Concerning the receivables on group companies, an at arm's length interest rate is charged with a credit risk premium ranging from 1.5 to 2.8%.

## 5 DEFERRED TAXES

The deferred tax assets and liabilities are related to the following items:

In thousands of euros	Tax write-down of loans	Unused tax losses and credits	Financial instruments	Total
<b>Balance at 31 December 2014</b>	<b>-10,215</b>	<b>0</b>	<b>1,664</b>	<b>-8,551</b>
(Charge)/credit to other comprehensive income			-481	-481
(Charge)/credit to profit or loss	1,298			1,298
<b>Balance at 31 December 2015</b>	<b>-8,917</b>	<b>0</b>	<b>1,183</b>	<b>-7,734</b>
(Charge)/credit to other comprehensive income			-534	-534
(Charge)/credit to profit or loss	-708	1,353		645
Reclassifications	8,530			8,530
<b>Balance at 31 December 2016</b>	<b>-1,095</b>	<b>1,353</b>	<b>649</b>	<b>907</b>

Certain deferred tax assets and liabilities are offset in accordance with the principles provided in IFRS. The deferred taxes are recognized in the balance sheet as follows:

In thousands of euros	2016	2015
Deferred tax assets stated under non-current assets	2,450	1,183
Deferred tax liabilities stated under non-current liabilities	-1,543	-8,917
<b>Deferred taxes</b>	<b>907</b>	<b>-7,734</b>

## 6 OTHER RECEIVABLES

In thousands of euros	2016	2015
Taxes and social security premiums	4,649	2,606
Other receivables	7,627	4,624
<b>Other receivables</b>	<b>12,276</b>	<b>7,230</b>

## 7 EQUITY

For the movement schedule is referred to the consolidated statement of changes in group equity. The company only movement schedule for equity, excluding the movement of the non-controlling interest, is the same.

### Authorized capital

		2016	2015
	x 1.000	€ '000	€ '000
<b>The authorized capital consists of:</b>			
Ordinary shares	59,984		
Cumulative preference financing shares	10,000		
Convertible cumulative preference financing shares	10,000		
Cumulative preference protective shares	60,000		
<b>Each nominal € 0.25</b>	<b>139,984</b>	<b>34,996</b>	<b>34,996</b>
Priority share	4		
<b>Each nominal € 1.00</b>	<b>4</b>	<b>4</b>	<b>4</b>
		35,000	35,000
Of which not issued		24,291	24,393
<b>Issued capital <sup>1</sup></b>		<b>10,709</b>	<b>10,607</b>

<sup>1</sup> Concerns 4,000 priority and 42,821,763 (depository receipts of) shares.

In 2016 a stock dividend of 408,249 (depository receipts of) shares was paid out of the share premium reserve. Issued capital increased with the same number.

The registered ordinary shares, with the exception of the registered shares in the company, have been transferred to Stichting Administratiekantoor TKH Group (Trust Foundation), which issues depository receipts of shares to the ultimate capital providers. The Trust Foundation is the party entitled to the shares and also exercises the voting right, unless it has granted power of attorney to the holders of the depository receipts. The holders of depository receipts are entitled to receive a power of attorney to cast a vote on the shares corresponding to the depository receipts they own. The Trust Foundation remains entitled to vote for the shares for which the holders of depository receipts are not present or represented at the meeting. The aforementioned power of attorney may be limited, excluded or revoked by the executive committee of the Trust Foundation in various situations specified in the law (see also Corporate Governance Code TKH). In that case the Trust Foundation may (again) exercise the voting right for all shares for which depository receipts have been issued. The relationship between the Trust Foundation and the holders of depository receipts of shares is governed by the administrative conditions. The protection afforded by the use of depository receipts is based on the 1% rule. The depository receipts may be exchanged for ordinary shares but not for more than 1% of the total issued capital in the form of ordinary shares. This total includes

shares owned indirectly as well as directly. However, this does not apply to the transfer of ordinary shares to the company itself. Every transfer of preference financing shares, convertible preference financing shares and preference protective shares must be approved by the Executive Board. The Executive Board may only grant its approval with the approval of the Supervisory Board.

No special rights are attached to the priority shares.

The company has granted the Stichting Continuïteit TKH an option to take preference protective shares for up to a maximum of 50% of the sum of the other outstanding shares at the time that the preference protective shares are issued or 100% of the sum of the other outstanding shares at the time that the preference protective shares are issued if the restriction on the cancellation option lapses, which will occur if and when the Executive Board of the company so decides and files a statement to that effect with the Chamber of Commerce.

#### Share premium reserve

The share premium reserve is fully exempt from Dutch taxes on distribution.

#### Legal reserve

The legal reserve relates to:

In thousands of euros	2016	2015
Capitalized development costs	42,726	33,372
Legal reserve for participations	487	1,545
<b>Legal reserve</b>	<b>43,213</b>	<b>34,917</b>

The legal reserve is not available for distribution to the company's shareholders.

#### Revaluation reserves

The revaluation reserves are not available for distribution to the company's shareholders.

#### Revaluation reserve for assets held for sale

The revaluation reserve for assets held for sale is not available for distribution to the company's shareholders.

#### Hedging and translation reserve

The hedging and translation reserves are statutory reserves and not available for distribution to the company's shareholders.

## 8 DIVIDEND

At the General Meeting of shareholders the dividend for 2015 was declared at € 1.10 per (depository receipt of) ordinary share. The dividend was proposed at the option of shareholders in cash or as a stock dividend. The dividend on the priority shares was declared at € 0.05 per share. The total amount in dividends paid in 2016 was € 32,037,916 and this amount was charged to the retained earnings. For stock dividend an amount of € 102,062 was charged against the share premium reserve. After 31 December 2016, the Executive Board has proposed a dividend. With regard to Article 33 of the Articles of Association, the Executive Board proposes to the holders of (depository receipts of) ordinary shares a dividend of € 1.10 per (depository receipt of) ordinary share. The dividend proposal has not been recognized in the balance sheet and does not impact the tax on profit.

## 9 SHARE-BASED PAYMENTS

For a disclosure of the share-based payments see note 26 of the consolidated financial statements.

## 10 OTHER PROVISIONS

In thousands of euros	2016	2015
Liability for subsidiaries with negative equity	3,836	5,616
Other long-term provisions	414	28
<b>Total of other long- and short-term provisions</b>	<b>4,250</b>	<b>5,644</b>

For more background details about provisions see note 14 of the consolidated financial statements.

## 11 FINANCIAL LIABILITIES

In thousands of euros	Earn-out and squeeze-out	Put options of shareholders of non-controlling interests	Total
<b>Balance at 1 January 2016</b>	<b>1,818</b>	<b>16,227</b>	<b>18,045</b>
Change in value through profit & loss account	-664	-324	-988
Disposals		-2,467	-2,467
Payment for acquisitions and non-controlling interests from previous years		-310	-310
<b>Balance at 31 December 2016</b>	<b>1,154</b>	<b>13,126</b>	<b>14,280</b>

For more details about the financial liabilities see note 15 of the consolidated financial statements.

## 12 BORROWINGS

In thousands of euros	2016	2015
Liabilities reported under non-current liabilities	210,000	222,000
To be amortized transaction costs for the credit facility		-678
Borrowings reported under current liabilities	38,779	60,958
<b>Net interest bearing liabilities</b>	<b>248,779</b>	<b>282,280</b>

For more details about the facilities, conditions and securities see notes 10, 18, 19 and 21 of the consolidated financial statements.

## 13 CONTINGENT LIABILITIES

Under Article 2:403, paragraph 1 sub f of the Dutch Civil Code the company has assumed joint and several liability for debts arising from the legal actions for all Dutch subsidiaries of which TKH owns directly or indirectly 100% of the shares. The declarations to that effect have been deposited for inspection at the office of the Chamber of Commerce in the place where the legal entity for which the guarantee was given has its registered office.

The company is formally a guarantor for a total sum of € 32.0 million (2015: € 27.3 million) for bank credit and bank guarantee facilities provided to a number of foreign participating interests. This facility was called on for a sum of € 1.1 million (2015: € 2.5 million) at the end of 2016.

The company and the majority of its 100% owned Dutch subsidiaries form a tax group for income tax. Consequently, the company is liable for the income taxes of these subsidiaries.

## 14 TURNOVER

The turnover is related to the charged head office costs in the year for services provided to subsidiaries of the company.

The goodwill is related to the acquisition of the airfield ground lighting activities of HELLA. For more details is referred to note 36 of the consolidated financial statements.

## 15 TAX

In thousands of euros	Notes	2016	2015
Current tax		-2,267	1,490
Adjustments for previous years		-438	-459
Deferred tax	5	-645	-1,298
<b>Total tax on profit</b>		<b>-3,350</b>	<b>-267</b>

The reconciliation of the tax expense in the year with the result before tax is as follows:

In thousands of euros (unless stated otherwise)		2016	2015
<b>Result before tax</b>		<b>-7,943</b>	<b>-8,851</b>
Tax calculated at the Dutch tax rate		-1,986	-2,213
<b>Correction due to tax effect for:</b>			
Non deductible expenses		760	817
Non deductible interests			-178
Untaxed gains		-408	
Recognition of deferred tax asset for unrecognized unused tax losses		-1,353	
Settlement of income tax returns for previous years		-438	-459
Taxes on undistributed profits of foreign subsidiaries		75	1,766
<b>Effective tax burden</b>		<b>-3,350</b>	<b>-267</b>
		<b>42.2%</b>	<b>3.0%</b>

## 16 SIGNATURE OF THE ANNUAL FINANCIAL STATEMENTS

Haaksbergen, 6 March 2017

### Executive Board

J.M.A. van der Lof MBA, *chairman*  
E.D.H. de Lange MBA  
A.E. Dehn

### Supervisory Board

H.J. Hazewinkel, *chairman*  
M.E. van Lier Lels, *vice-chair*  
P.P.F.C. Houben  
R.L. van Iperen  
A. De Proft Msc.

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# PROFIT APPROPRIATION

Since no protection preference and financing preference shares were outstanding or issued, within the meaning of Articles 33.1, 3, 4, 5, 6 paragraph b and c, 8, 9 and below, only the articles governing the profit appropriation in relation to the outstanding shares are included here.

### Article 33 of the articles of association reads as follows:

2. The company can only make payments to shareholders and other parties entitled to the profit that are eligible for payment if the group equity is greater than the amount of the paid and called-up part of the capital increased by the reserves which must be kept according to law or the articles of association.
- 6 a. From the profit that remains after application of the previous paragraphs, five percent (5%) of the nominal amount shall, if possible, be paid out on the priority shares.
7. If in any financial year, the profit is not sufficient to make the payments as referred to in paragraph 6 of this article, in the following financial years the provisions of paragraph 6 and paragraph 10 shall not be applied until the deficit is cleared. The Executive Board is authorised, subject to approval by the Supervisory Board, to decide to pay out a sum equal to the deficit referred to in the previous sentence from the reserves.
10. The Executive Board shall reserve as much of the profit that remains as it feels is necessary, subject to approval by the Supervisory Board. In as far as the profit is reserved without application of the previous sentence it is at the disposal of the general meeting, either wholly or partly for the reserves, or wholly or partly to be paid out to the holders of ordinary shares in proportion to their holding of ordinary shares.

For other provisions of the articles of association we refer to TKH's website: [www.tkhgroup.com](http://www.tkhgroup.com). A resolution of the General Meeting of Shareholders to amend the articles of association can only be adopted on the proposal of the Executive Board, which proposal shall require the approval of the Supervisory Board and with a majority of at least two thirds of the votes cast in a General Meeting of Shareholders in which at least half of the issued capital is represented.

# PROPOSAL FOR PROFIT APPROPRIATION

In thousands of euros

Net profit accountable to shareholders € 85,707

In accordance with Article 33 of the articles of association, we propose paying the holders of (depository receipts of) ordinary shares a dividend of € 1.10 per (depository receipt of) ordinary share.

The dividend will be made available for payment on 10 May 2017. The dividend for 4,000 priority shares has been set at € 0.05 per share of € 1.00.



# INDEPENDENT AUDITOR'S REPORT

To: the shareholders and Supervisory Board of TKH Group N.V.

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2016

### Our opinion

We have audited the financial statements 2016 of TKH Group N.V. (also referred to as 'the company'). The financial statements include the consolidated financial statements and the company financial statements.

### In our opinion:

- The consolidated financial statements give a true and fair view of the financial position of TKH Group N.V. as at 31 December 2016 and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The company financial statements give a true and fair view of the financial position of TKH Group N.V. as at 31 December 2016 and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code

### The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2016
- The following statements for 2016: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

### The company financial statements comprise:

- The company balance sheet as at 31 December 2016
- The company profit and loss account for 2016
- The notes comprising a summary of the significant accounting policies and other explanatory information

### Basis for our opinion

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

We are independent of TKH Group N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

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

### Materiality

Materiality	€ 5 million
Benchmark applied	5% of the result before tax
Additional explanation	We consider the profit before tax to be the most appropriate benchmark for TKH Group N.V., given the importance attached to this by the stakeholders.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of € 250,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

### Scope of the group audit

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

In particular, the group audit focused on the operating companies which are significant in terms of size and financial importance or to which significant risks or more complex activities (such as projects) apply. The audits of the Dutch operating companies within the scope of the group audit were carried out by ourselves. EY teams carried out the audits of the foreign operating companies in scope, with the exception of a few operating companies in Germany and France. The foreign auditors received their instructions from us. We further consulted regularly with all the teams during 2016 and during the year-end audit in 2017. In addition, we performed file reviews in Austria, Germany and France and attended important consultation meetings. In this way we managed the group audit and were able to address significant observations in our group audit.

The procedures in relation to the consolidation of the group, the explanatory notes in the financial statements and the assessment of the valuation of goodwill and other intangible fixed assets were performed by the group team. Altogether, the aforesaid procedures represent 78% of the total assets, 89% of the profit before tax and 71% of the group's turnover.

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

## Our key audit matters

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

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

## RISK

## OUR AUDIT STRATEGY

### Revenue recognition, including the selected timing of revenue recognition

In view of the diversity in revenue categories, including revenue from trading activities, production and projects in respect of which results are recognized based on percentage of completion, we identified the accuracy and completeness of and the cut-off for revenue recognition as specific key audit matter.

We refer to section 23 'Operating income' and related accounting policies in section 1 of the financial statements.

We assessed the internal control measures with respect to revenue recognition, including the selected timing of revenue recognition, the manner in which discounts, commission payments and sales bonuses are accounted for, as well as the recognition of transactions with multiple revenue components. We additionally performed substantive procedures, such as margin analyses, sample testing of transactions around the balance sheet date, and assessment of contracts. In relation to projects, we furthermore verified application of the 'percentage of completion' method, including margin assessments per project, capitalization of costs and commission payments, and changes in project budgets versus reality, including interim adjustments, if any.

### Valuation of projects in progress and inventories

Production in the case of several group companies is realized on a project basis, leading to the existence of projects in progress on the balance sheet date and prompting management to make estimates of the 'percentage of completion' of the projects as well as the expected results of the projects concerned. In addition, the cost price of the inventories produced in the case of several group companies is largely dependent on the price of copper or other raw material components which are subject to fluctuation. We have therefore addressed the valuation of work in progress as well as the valuation of inventories as key audit matter.

We refer to section 9 'Construction contracts' and section 7 'Inventories' and related accounting policies in section 1 of the financial statements.

Our procedures included a combination of system-based and substantive procedures which were performed at the level of the operating companies, depending on the nature and size of the recognized inventories and projects.

In relation to projects, estimates regarding the 'percentage of completion', margins per project, capitalization of costs and commission payments, and changes in project budgets versus reality, including interim adjustments, if any, were audited. We verified that inventories had been measured in agreement with the market prices paid by the company and that, where applicable, had been written down to their lower net realizable value.

### Valuation of goodwill

TKH Group N.V. is required under EU-IFRS to test annually the amount of goodwill for the possible existence of impairments. This annual impairment test is a key audit matter, since the estimation process is complex and highly subjective and is based on assumptions. These assumptions are influenced by anticipated future market developments and economic conditions.

On December 31, 2016, the goodwill amounts to € 234 million (2015: € 237 million). Based on the impairment test that has been carried out, TKH Group N.V. has concluded that there is no impairment. Explanatory notes on the key principles and the sensitivity analysis are included in the financial statements.

We refer to section 3 'Intangible fixed assets' and related accounting policies and assumptions in sections 1 and 2 of the financial statements.

The audit procedures we performed regarding the valuation of goodwill consist of, among other things, an assessment of the assumptions underlying the estimate of future cash flows, and the reasonableness of and consistency with internal estimates and long-term forecasts. In addition, we examined the Executive Board's estimate with regard to innovation, expected growth in revenues, gross margin and discount rates.

In performing our audit procedures, we made use, among other things, of the services of a valuation expert in our team to assist us in evaluating the assumptions and methods employed by TKH Group N.V. We evaluated the sensitivity analyses and explanatory notes prepared by TKH Group N.V.

## RISK

### Valuation of development costs

TKH Group N.V. capitalizes the costs of investment projects if the requirements of IAS 38 are met. This process involves complex estimations and is highly dependent on subjective factors.

The carrying amount of capitalized development costs as at December 31, 2016 was € 57 million (2015: € 45 million).

Internal analyses have led THK Group N.V. to conclude that the capitalized development costs satisfy the criteria mentioned in IAS 38.

We refer to section 3 'Intangible non-current assets' and related accounting policies and assumptions in section 1 and 2 of the financial statements.

## OUR AUDIT STRATEGY

In our audit of the capitalized development costs we used the company's internal analyses. In this context we specifically examined the extent to which the development projects can be separately identified, whether the capitalized costs reflect the actual costs incurred, and the extent to which the estimate of future economic benefits is plausible. In addition, we assessed the application of the criteria stated in IAS 38, including technical feasibility, the intention to complete the asset and the possibility to either use or sell it.

## REPORT ON OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

- the profile of TKH Group N.V.;
- the value creation model of TKH Group N.V.;
- the Report of the Executive Board;
- the Report of the Supervisory Board;
- the report on the organisation of corporate governance at TKH Group N.V.; and
- other information.

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

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

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial

statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Executive Board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Engagement

We were engaged by the General Meeting of Shareholders on 14 May 2014 as auditor of TKH Group N.V. with effect from the audit for the 2015 financial year, and have operated as statutory auditor ever since that date.

## DESCRIPTION OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

### Responsibilities of the Executive Board and Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

### Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reason-

ably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

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

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

Zwolle, 6 March 2017

Ernst & Young Accountants LLP  
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# PARTICIPATIONS

The following directly or indirectly held subsidiaries are included in the consolidation:

Name	Place	Country	Ownership 31-12-16 <sup>1</sup>	Ownership 31-12-15	Telecom Solutions	Building Solutions	Industrial Solutions
Alphatronics B.V.	Nijkerk	Netherlands	100.0%	100.0%		•	
BB Lightconcepts	Doetinchem	Netherlands	100.0%	100.0%		•	
B.V. Twentsche Kabelfabriek	Haaksbergen	Netherlands	100.0%	100.0%	•	•	•
bv Elspec	De Kwakel	Netherlands	100.0%	100.0%		•	•
Capable B.V.	Breda	Netherlands	100.0%	100.0%			•
Capassy B.V.	Breda	Netherlands	100.0%	100.0%			•
Commend Benelux B.V.	Prinsenbeek	Netherlands	100.0%	100.0%		•	
Cruxin B.V.	Capelle a/d IJssel	Netherlands	100.0%			•	
EKB Groep B.V.	Beverwijk	Netherlands	100.0%	100.0%			•
Eldra B.V.	Ittervoort	Netherlands	100.0%	100.0%		•	•
Eminent Europe B.V.	Barneveld	Netherlands	100.0%	100.0%	•	•	•
Flexposure B.V. <sup>2</sup>	Beesd	Netherlands	70.0%	70.0%		•	
Funea Broadband Services B.V.	Oosterhout	Netherlands	100.0%	100.0%	•		
Intronics Barneveld B.V.	Barneveld	Netherlands	100.0%	100.0%	•	•	•
Isolectra B.V.	Capelle a/d IJssel	Netherlands	100.0%	100.0%		•	
Jobarco B.V.	Benthuizen	Netherlands	100.0%	100.0%			•
Keyprocessor B.V.	Amsterdam	Netherlands	100.0%	100.0%		•	
LMI Technologies B.V.	Kerkrade	Netherlands	100.0%	100.0%		•	
Mextal B.V. <sup>2</sup>	Nuenen	Netherlands	95.0%	90.0%		•	
Pantaflex B.V. <sup>2</sup>	Bergschenhoek	Netherlands	94.4%	94.4%			•
Park Assist B.V.	Beesd	Netherlands	100.0%			•	
Siqura B.V.	Gouda	Netherlands	100.0%	100.0%		•	
Speeq B.V.	Capelle a/d IJssel	Netherlands	100.0%	100.0%		•	
Texim Europe B.V.	Haaksbergen	Netherlands	100.0%	100.0%	•	•	•
TKH Logistics B.V.	Haaksbergen	Netherlands	100.0%	100.0%	•	•	•
TKH Logistics Vastgoed B.V.	Haaksbergen	Netherlands	100.0%		•	•	•
TKH Parking Solutions B.V.	Beesd	Netherlands	100.0%	100.0%		•	
TKH Parking Technology B.V.	Beesd	Netherlands	51.0%	51.0%		•	
TKH Security Solutions B.V.	Haaksbergen	Netherlands	100.0%	100.0%		•	
USE System Engineering B.V. <sup>2</sup>	Haaksbergen	Netherlands	75.0%	75.0%		•	
VDG Security B.V.	Zoetermeer	Netherlands	100.0%	100.0%		•	
VMI Holland B.V.	Epe	Netherlands	100.0%	100.0%			•
Capable NV	Gent	Belgium	100.0%	100.0%			•
Intronics Belgium N.V.	Herentals	Belgium	100.0%	100.0%	•	•	•
Techno Specials N.V.	Gent	Belgium	100.0%	100.0%	•	•	•
Texim Europe BVBA	Brüssel	Belgium	100.0%	100.0%	•	•	•

Name	Place	Country	Ownership 31-12-16	Ownership 31-12-15	Telecom Solutions	Building Solutions	Industrial Solutions
EFB Nordics A/S	Ballerup	Denmark	100.0%	100.0%	●	●	
Induperm A/S	Nykøbing Falster	Denmark	100.0%			●	
Aasset Germany GmbH	Erkrath	Germany	100.0%	100.0%		●	
Allied Vision Technologies GmbH	Stadtroda	Germany	100.0%	100.0%		●	
ASP AG	Erkrath	Germany	100.0%	100.0%		●	
Dewetron Elektronische Messgeräte GmbH	Wernau	Germany	100.0%	100.0%			●
EEB Kabeltechnik GmbH	Forst	Germany	100.0%	100.0%			●
EFB Elektronik GmbH	Bielefeld	Germany	100.0%	100.0%	●	●	●
Ernst & Engbring GmbH	Oer-Erkenschwick	Germany	100.0%	100.0%			●
HE System Electronic GmbH & Co. KG	Veitsbronn	Germany	100.0%	100.0%			●
New Electronic Technology GmbH	Finning	Germany	100.0%	100.0%		●	
Schneider Intercom GmbH	Erkrath	Germany	100.0%	100.0%		●	
Schrade Kabel- und Elektrotechnik GmbH	Allmendingen	Germany	100.0%	100.0%			●
Schreinermacher Kabelkonfektionen GmbH	Kaarst-Büttgen	Germany	100.0%	100.0%	●	●	
Texim Europe GmbH	Quickborn	Germany	100.0%	100.0%	●		●
TKD Kabel GmbH	Nettetal	Germany	100.0%	100.0%			●
TKF GmbH	Teltow	Germany	100.0%	100.0%	●		
TKH Airport Technologie GmbH	Nettetal	Germany	100.0%			●	
VMI-AZ Extrusion	Runding	Germany	100.0%	100.0%			●
Aasset France SAS	Argenteuil	France	100.0%	100.0%		●	
Multi Media Connect SA	Ville la Grand	France	100.0%	100.0%		●	
CAE Data SAS	Wissous	France	100.0%	100.0%	●	●	●
ECCTV	Argenteuil	France	100.0%	100.0%		●	
ID Cables SAS	Wissous	France	100.0%	100.0%	●	●	●
HPM Cables Sarl	Chaon	France	90.0%	90.0%	●	●	●
TKF SAS	Wissous	France	100.0%	100.0%	●		
Commend France SAS	Saint Ouen	France	100.0%	100.0%		●	
LMI Technologies Ltd	Dublin	Ireland	100.0%	100.0%		●	
Aasset Italia	Conegliano	Italy	100.0%	90.0%		●	
KC Industrie Sarl	Villanova sull' Arda	Italy	94.5%	94.5%			●
TKD Italia Srl.	Ozzano Dell Emilia	Italy	70.0%	70.0%			●
Commend Italia Srl.	Carobbio Degli Angeli (BG)	Italy	100.0%	100.0%		●	
BCT Electronics GesmbH	Salzburg	Austria	100.0%			●	
Commend International GmbH	Salzburg	Austria	74.0%	74.0%		●	
Dewetron Elektronische Messgeräte GmbH	Graz	Austria	100.0%	100.0%			●
EFB Elektronik Austria GmbH	Wien	Austria	100.0%	100.0%	●	●	●
C&C Partners Sp. z o.o	Leszno	Poland	100.0%	100.0%	●	●	
C&C Technology Sp. z o.o	Leszno	Poland	100.0%	100.0%		●	
TKD Polska Sp. z.o.o	Warschau	Poland	100.0%	100.0%			●
TKH Kabeltechnik Polska Sp. z.o.o	Leszno	Poland	100.0%	100.0%			●
VMI Poland Sp. z.o.o	Leszno	Poland	100.0%	100.0%			●
Intronics Espana SA	Malaga	Spain	100.0%	100.0%	●	●	●
Siqura S.L.	Madrid	Spain	100.0%	100.0%		●	
Commend Iberica SL	Barcelona	Spain	100.0%	100.0%		●	

Name	Place	Country	Ownership 31-12-16	Ownership 31-12-15	Telecom Solutions	Building Solutions	Industrial Solutions
EFB Elektronik Ltd.	Istanbul	Turkey	90.0%	85.0%	●	●	
Sigura Ltd.	Rotherham	UK	100.0%	100.0%		●	
VMC Elteknik AB	Strängnäs	Sweden	100.0%	100.0%	●	●	
Multi Media Connect (Aust) Pty Ltd.	Tuggerah	Australia	85.0%	85.0%		●	
Park Assist Holdings Pty Ltd.	Sydney	Australia	100.0%	100.0%		●	
VMI South America Ltda.	Sao Paulo	Brazil	100.0%	100.0%			●
Allied Vision Technologies Inc.	Burnaby	Canada	100.0%	100.0%		●	
LMI Technologies Inc.	Vancouver	Canada	100.0%	100.0%		●	
Allied Vision Technologies (Shanghai) Co. Ltd.	Shanghai	China	100.0%	100.0%		●	
Dewetron China Ltd.	Shanghai	China	85.0%	77.5%			●
LMI (Shanghai) Trading Co. Ltd.	Shanghai	China	100.0%	91.2%		●	
TKD China Co. Ltd.	Zhangjiagang	China	100.0%	100.0%			●
TKH Building Solutions Shanghai Co. Ltd.	Shanghai	China	100.0%	100.0%		●	
Twentsche (Nanjing) Fibre Optics Co. Ltd.	Nanjing	China	100.0%	100.0%	●		
VMI (Yantai) Machinery Co. Ltd.	Yantai	China	100.0%	100.0%			●
VMI Ltd.	Yantai	China	100.0%	100.0%			●
Zhangjiagang Twentsche Cable Co. Ltd.	Zhangjiagang	China	100.0%	100.0%		●	
Isolectra Communications Technology Sdn Bhd	Shah Alam	Malaysia	100.0%	100.0%	●	●	
Ithaca S.A. <sup>2</sup>	Casablanca	Morocco	75.0%	75.0%		●	
NET Japan Co. Ltd.	Yokohama	Japan	90.0%	90.0%		●	
Multi Media Connect (N.Z.) Pty Ltd.	Paraparaumu	New Zealand	85.0%	85.0%		●	
Allied Vision Technologies Pte. Ltd.	Singapore	Singapore	100.0%	100.0%		●	
Isolectra Far East Pte Ltd.	Singapore	Singapore	100.0%	100.0%	●	●	
CMF Taiwan	Taiwan	Taiwan	60.0%	60.0%		●	
Allied Vision Technologies Inc.	Boston	USA	100.0%	91.2%		●	
Dewetron America Inc.	Wakefield	USA	95.0%	90.0%			●
Kaweflex Wire and Cable Inc.	Cincinnati	USA	100.0%	100.0%			●
LMI Technologies Inc.	Detroit	USA	100.0%	100.0%		●	
NET USA Inc.	Highland	USA	100.0%	90.0%		●	
Park Assist LLC	New York	USA	100.0%	100.0%		●	
TKH Security Solutions USA Inc.	Germantown	USA	100.0%	100.0%		●	
VMI Americas Inc.	Stow	USA	100.0%	100.0%			●
Commend Inc.	New York	USA	100.0%	100.0%		●	

<sup>1</sup> Economic ownership is equal to the legal ownership, unless mentioned differently.

<sup>2</sup> Economic ownership is 100%.



# TEN YEARS OVERVIEW

in millions of euros

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Consolidated profit and loss account</b>										
<b>Turnover</b>	<b>1,341</b>	<b>1,375</b>	<b>1,346</b>	<b>1,198</b>	<b>1,102</b>	<b>1,061</b>	<b>894</b>	<b>726</b>	<b>997</b>	<b>838</b>
Changes in inventory of finished goods and work in progress <sup>1</sup>	-2	10	-5							
Raw materials, consumables, trade products and subcontracted work	712	733	775	699	652	649	545	430	628	528
Personnel expenses	331	326	296	277	234	210	174	158	186	158
Depreciation <sup>2</sup>	22	22	20	19	17	15	14	16	17	12
Other operating expenses	131	133	124	103	113	95	88	81	90	74
<b>Total operating expenses</b>	<b>1,194</b>	<b>1,224</b>	<b>1,210</b>	<b>1,098</b>	<b>1,016</b>	<b>969</b>	<b>821</b>	<b>685</b>	<b>921</b>	<b>772</b>
<b>EBITA before one-off income and expenses</b>	<b>147</b>	<b>151</b>	<b>136</b>	<b>100</b>	<b>86</b>	<b>92</b>	<b>73</b>	<b>41</b>	<b>76</b>	<b>66</b>
One-off income and expenses			9	-7	-12	-2		-12		
<b>EBITA</b>	<b>147</b>	<b>151</b>	<b>145</b>	<b>93</b>	<b>74</b>	<b>90</b>	<b>73</b>	<b>29</b>	<b>76</b>	<b>66</b>
Impairments		1	1					4	-3	
Amortization	33	32	26	26	21	13	11	9	6	3
<b>Operating result</b>	<b>114</b>	<b>118</b>	<b>118</b>	<b>67</b>	<b>53</b>	<b>77</b>	<b>62</b>	<b>16</b>	<b>73</b>	<b>63</b>
Financial result	-7	-7	-10	-13	-12	-7	-7	-11	-8	-5
<b>Result on ordinary activities before taxes</b>	<b>107</b>	<b>111</b>	<b>108</b>	<b>54</b>	<b>41</b>	<b>70</b>	<b>55</b>	<b>5</b>	<b>65</b>	<b>58</b>
Taxes	20	23	22	12	10	16	14	2	15	12
<b>Net result</b>	<b>87</b>	<b>88</b>	<b>86</b>	<b>42</b>	<b>31</b>	<b>54</b>	<b>41</b>	<b>3</b>	<b>50</b>	<b>46</b>
Non-controlling interests	1	2	3	5	3	1	1			1
Attributable to shareholders	86	86	83	37	28	53	40	3	50	45
<b>Key figures</b> (as % unless stated otherwise)										
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
EBITA as % of the total turnover (ROS) <sup>3</sup>	10.9	11.0	10.0	8.3	7.8	8.7	8.2	5.6	7.6	7.9
Return as % of the shareholders' equity <sup>2 3</sup>	16.5	19.3	17.8	13.7	11.7	16.5	13.9	6.4	16.3	15.5
EBITA in % of the average capital invested (ROCE)	20.1	22.1	21.2	15.9	15.9	21.5	20.0	9.8	16.5	15.3
Net debt / EBITDA ratio <sup>2 3</sup>	1.0	0.9	1.0	1.5	1.6	0.9	0.7	1.2	1.7	1.8
Net result as % of the total turnover <sup>2 3</sup>	7.2	7.4	6.6	5.0	4.5	5.6	5.0	2.5	5.0	4.9

<sup>1</sup> Up to and including 2013 the line item 'Changes in inventory of finished goods and work in progress' was included in the turnover.

<sup>2</sup> After restatement as a result of change in accounting principles for land and buildings and prior period restatements (see Accounting Principles) for the years 2014 up to 2016. The years 2006 up to 2013 have not been restated.

<sup>3</sup> Before one-off income and expenses. The one-off income and expenses in 2016 were impairments, on balance, of € 0.2 million (2015: € 1.5 million) and tax income of € 3.0 million (2015: € 0.3 million). In 2014 a one-off defined pension benefit gain of € 9.4 million is included. In 2013, one-off expenses arising from restructurings and impairments of € 7.2 million and € 0.2 million are included. The non-recurring items in 2012 relate to restructuring and acquisition costs of € 12.2 million, release of provisions for earn-out and put options of € 3.0 million and the tax benefit of about € 2.8 million. In 2011, the acquisition cost totaled € 2.0 million.

In millions of euros	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Consolidated balance sheet</b>										
Intangible non-current assets	395	400	352	349	343	204	168	167	169	149
Tangible non-current assets <sup>1</sup>	215	196	176	199	195	171	157	151	165	146
Financial non-current assets	46	34	28	30	31	23	19	10	9	8
<b>Total non-current assets</b>	<b>656</b>	<b>630</b>	<b>556</b>	<b>578</b>	<b>569</b>	<b>398</b>	<b>344</b>	<b>328</b>	<b>343</b>	<b>303</b>
Inventories	207	194	202	185	197	165	138	115	140	145
Receivables	295	248	288	234	201	187	165	146	225	202
Cash and Cash equivalents	88	179	145	80	66	29	23	44	10	10
<b>Total current assets</b>	<b>590</b>	<b>621</b>	<b>635</b>	<b>499</b>	<b>464</b>	<b>381</b>	<b>326</b>	<b>305</b>	<b>375</b>	<b>357</b>
Assets held for sale			3		7	7	7	9	3	1
<b>Total assets</b>	<b>1,246</b>	<b>1,251</b>	<b>1,194</b>	<b>1,077</b>	<b>1,040</b>	<b>786</b>	<b>677</b>	<b>642</b>	<b>721</b>	<b>661</b>
Shareholders' equity <sup>1</sup>	574	521	483	378	364	356	317	281	292	264
Non-controlling interests	8	9	17	61	60	2	2	1	1	1
<b>Group Equity</b>	<b>582</b>	<b>530</b>	<b>500</b>	<b>439</b>	<b>424</b>	<b>358</b>	<b>319</b>	<b>282</b>	<b>293</b>	<b>265</b>
Provisions <sup>1</sup>	74	71	68	112	105	75	54	64	60	68
Non-current liabilities	214	223	259	259	202	124	55	72	126	86
Borrowings	52	126	59	15	60	4	32	41	71	88
Financial liabilities	23	27								
Other current liabilities	301	274	294	252	249	225	217	183	171	154
<b>Total equity and liabilities</b>	<b>1,246</b>	<b>1,251</b>	<b>1,194</b>	<b>1,077</b>	<b>1,040</b>	<b>786</b>	<b>677</b>	<b>642</b>	<b>721</b>	<b>661</b>
<b>Other information</b> in euros (unless stated otherwise)	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Solvency (in %)	47	42	42	41	41	46	47	44	41	40
Investments in tangible non-current assets	46	38	34	19	25	22	21	11	32	29
Depreciations of tangible non-current assets	23	23	20	19	17	15	14	17	17	13
Cash flow from operating activities	103	182	95	79	75	47	55	152	53	38
Number of shares outstanding and held by third parties at year end (x 1,000)	42,161	41,724	41,400	37,985	37,658	37,284	36,885	36,293	35,290	34,638
Net result per ordinary share of € 0.25	2.04	2.07	2.14	0.98	0.76	1.44	1.10	0.07	1.43	1.30
Net result before one-off income and expenses and amortization per share	2.25	2.40	2.23	1.48	1.27	1.63	1.21	0.49	1.34	1.34
Dividend per share	1.10	1.10	1.00	0.75	0.65	0.75	0.61	0.50	0.66	0.66
Highest share price during year under review	38.14	40.50	27.18	26.40	20.86	23.80	19.61	13.95	17.41	23.41
Lowest share price during year under review	28.47	25.35	22.13	18.55	15.41	13.24	12.52	6.35	7.04	13.62
Share price at year-end	37.59	37.44	26.36	25.40	19.50	16.95	19.61	13.95	8.00	14.96

<sup>1</sup> After restatement as a result of change in accounting principles for land and buildings and prior period restatements (see Accounting Principles) for the years 2014 up to 2016. The years 2006 up to 2013 have not been restated.

# REPORTING SYSTEM CSR

## Procedures, standards and guidelines

In the annual report 2016, we provide an account of, among other things, our performance in the area of CSR during the year under review from 1 January 2016 up to 31 December 2016. The legal publication date of the report is 22 March 2017. We discuss the topics that have been an integral part of our CSR policy for several years and report on them in line with the Global Reporting Initiative (GRI) 4.0. The report's content and framework are based on a materiality analysis that identifies the material issues of greatest relevance for TKH, which are then used to decide the scope and boundaries of the CSR reporting. The Global Reporting Initiative (GRI) guidelines were used to define and set our KPIs. In the GRI 4.0 guidelines, it is important that a company makes an estimate of issues that are of sufficient importance to merit reporting. The significance (materiality) of the issues to be selected is determined through analysis of the impact of the key data on people, the environment and society, in relation to the value stakeholders attach to those issues. See the Materiality Matrix and the GRI table.

The principle of Integrated Reporting is further implemented in the management report of the Annual Report 2016. We use the IIRC (International Integrated Report Council) model by which we provide insight on how to create value within the TKH group. This is explained further in the management report on the basis of qualitative and quantitative information. The format of the IIRC model is also held with the explanation of the trends in the CSR report and the risk management section.

In compiling the CSR report, we used information and results derived from our monthly internal reporting structure and available from our organizations as part of their compliance with the ISO 14001 environmental management system, the OHSAS 18001 health & safety management system, the CO<sub>2</sub> Performance Ladder. The CSR Performance Ladder and the Dutch Corporate Governance Code. In addition, we used the findings and recommendations on the basis of providing information on the CDP platform.

Emission factors are values that are used to convert the amounts of energy used, such as liters of petrol or cubic meters of natural gas, into the amount of CO<sub>2</sub> emissions they produce. In calculating the CO<sub>2</sub> impact of its operations, TKH relies as much as possible on the list of emission factors drawn up by SKAO, Stimular, Connekt Environment Centre and the Ministry of Infrastructure and the Environment.

To measure and report the CO<sub>2</sub> emissions, we use the distribution in the scopes of the Greenhouse Gas (GHG) protocol.

- Scope 1 covers the CO<sub>2</sub> emissions caused by fuels that we purchase and consume by ourselves, and concerns mainly gas, petrol and diesel.
- Scope 2 covers CO<sub>2</sub> emissions from electricity consumption.
- Scope 3 emissions covers CO<sub>2</sub> from fleet (commuting), waste generated from own operations and transportation of goods.

Our focus remains primarily on scope 1 and 2, because these scopes are directly affected by our operations and most of our emissions occurs within those scopes.

This list was compiled with the utmost care and offers TKH the advantage of being a reliable, verifiable source for almost all emission factors. The list also incorporates the latest findings with regard to including supply chain emissions in the production of energy sources. In addition, in calculating the Carbon Footprint, we adopt the 'The Greenhouse Gas Protocol' reporting standard of the World Resources Institute and the World Business Council for Sustainable Development ([www.ghgprotocol.org](http://www.ghgprotocol.org)) and we are also guided by the MJA3 Covenant.

The products supplied by TKH satisfy the European directives REACH and ROHS. REACH is a European system for registering, evaluating (risks to people and the environment) and authorizing chemical substances in Europe. ROHS is a European directive that prohibits certain hazardous substances from being used in electrical and electronic devices.

As far as human rights are concerned, it goes without saying for TKH that its business activities should be conducted in accordance with the Universal Declaration of Human Rights. We refer to our code of conduct and the code of supply (both can be downloaded from the website [www.tkhgroup.com](http://www.tkhgroup.com)). We support the OECD guidelines that provide us with guidance regarding such issues as supply chain responsibility, human rights, child labour and the environment.

We have taken a closer look the Sustainable Development Goals (SDG) which are determined in September 2015 by the United Nations General Assembly. We have set the objectives against our strategy and our CSR policy. An initial analysis shows that our strategy is directly related to several targets from SDG and that we already support some targeted goals and programs. As TKH we can really make a difference with our products and total solutions that we bring to market. In 2017, we will orient ourselves to what extent the SDG targets can be further developed in internal sustainability programs.

We have provided our input in 2016 to the Carbon Disclosure Project (CDP), a non-profit organization requesting the environmental impact of organizations on behalf of investors and public authorities on the basis of its own development platform. The report made several suggestions for improvement which we will analyze in more detail for possible implementation.

For the circular economy, we are focusing on the ambitions defined by Nederland Circular in the chain innovation program 'Plastic and rubber in the underground infrastructure' and the Dutch Infrastructure Companies in their "Mission Statement Fair Infra". We also focus on the priority letters and other communications of the Dutch Association of Investors for Sustainable Development on this theme, among others VBDO, Eumedion and VEB.

We have used data from Statistics Netherlands for the benchmark data on absenteeism. The benchmark data for the employee satisfaction survey came from the research firm Integron.

### Scope and changes compared to last year

The CSR policy is not adjusted in 2016. If policy changes are applied, these are explained in the report to the specific topic. Compared to previous reporting, there are no changes in the system of measuring. Several definitions are added to the dashboard in the year under review year, such as membership / participation in trade associations and supply chain initiatives, diversity regarding people with restricted opportunities on the labour market. From 2016, new internal targets for energy and CO<sub>2</sub> reduction are determined; 5% energy reduction in 2020 and 2.5% CO<sub>2</sub> reduction by 2020 with 2015 as the reference year. Simultaneously, we have broadened the scope for companies acting in production, distribution and warehouse environment. The operating companies that are active in an office environment are not included in the scope any more. The nature of the activities of these companies do not affect energy consumption materially.

Unless otherwise stated, the data are based on all our domestic and foreign subsidiaries. Where this is not so, explicit mention will be made of this. The subsidiaries acquired will start reporting on CSR in accordance with the TKH reporting structure in the year following acquisition. Companies in which TKH has a minority ownership interest are not included in the report. Consolidation of data occurred along the same lines as the system used in the financial consolidation. Any estimates made are based on historical information.

No changes have been made in the materiality matrix. Like last year we do not report on those topics that are less material. This concerns the following themes: local presence, customer privacy, local politics and biodiversity.

During the reporting period, there were no changes to the legal structure, ownership or supply chain of the organization.

### Internal audit

The data have been audited by the responsible company officers as to plausibility and progress using the Cognos financial reporting model. Data were verified by TKH's financial department, with PWC as external advisor. All reported differences greater than 10% compared with the previous year have been explicitly investigated.

TKH does not have the CRS report verified externally. At the moment, the priority lies in investing time and commitment in implementing sustainability within the organization.

However, we did have an external advisor check the CRS chapter against the GRI 4.0 guidelines. We have also made further steps regarding integrated reporting.

### The following groups provided input for the content of TKH's CSR report.

#### Shareholders

- CSR was discussed in the course of dealing with the 2015 annual report in the AGM on 26 April 2016
- A Shareholders Day on 20 September 2016.
- The representatives of (institutional) investors and some investment funds provide a list of priorities every year.

#### Management

- CSR is a recurring theme in the quarterly meetings with the subsidiaries. CSR also has a separate chapter devoted to it in the format for the subsidiaries' budget and strategic plans, in which the management is asked to contribute proposals for actions and improvement.
- CSR is a recurring theme at the international management conference and during the meetings with financial controllers.

### Employees

- The Central Works Council has discussed the CSR policy as part of the annual report.
- Sub-issues are managed by setting up various steering groups for CSR themes.
- Through employee satisfaction surveys.
- Via trainings and educations, among others at confidential officers.

### Customers and suppliers

- Input through value-chain consultation and discussing themes that concern the code of supply.
- Through customer satisfaction surveys.

### Ministry of Economic Affairs

- TKH is included in the Transparency Benchmark. The annual questionnaire and accompanying letter provide an indication of the issues to which the government wants more attention devoted.

### Stakeholders dialogue

- Through the stakeholder dialogue on 6 December 2016, the following topics were discussed: the impact of climate change, circular economy and transparency / integrated reporting. Surveys conducted among shareholders, analysts, customers, suppliers, employees, consultancies and NGOs.

### CSR in the organization

To safeguard the CSR policy, the Executive Board is directly involved in CSR developments within the TKH organization and personal targets are linked to CSR performance (see also Remuneration Report of the Executive Board).

TKH's Company Secretary (also compliance officer) is responsible for developing and implementing CSR for the TKH Group. CSR is a standard item on the agenda at meetings of the management board, on which the Company Secretary has a seat. There is close

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collaboration with the Director Finance and Control, who is also a member of the management board, due to reporting on CSR issues at the subsidiaries. There is also close co-operation with TKH's Internal Auditor in relation to his auditing of CSR themes during the audit reviews. Contacts with the confidential officers rely on the operation of the TKH code of conduct and the associated whistleblowers regulations.

New CSR initiatives are preferably developed in working groups. This expedites the building of support within the Group and makes implementation more efficient and effective. Initiatives in the value chain are always attended by commercial managers in order to guarantee a pragmatic approach.

In conducting the stakeholder dialogues, we work with executives from our subsidiaries, business line managers, account managers and HR. The Executive Board and Management Board is frequently involved in these discussions.

The Executive Board discusses progress in CSR every quarter with the (clusters of) subsidiaries. This is based on financial and operational reports in which CSR is included. We have embedded CSR in our Cognos financial reporting system so that it is an integral part of our information system.

For more information about TKH's sustainability program, please contact Renate Dieperink MBA ([r.dieperink@tkhgroup.com](mailto:r.dieperink@tkhgroup.com)). Please feel free to send any feedback you may have on this report to this e-mail address. For up-to-date information on sustainability, you can also consult our website: [www.tkhgroup.com/mvo](http://www.tkhgroup.com/mvo).



# GRI-INDEX

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# GLOSSARY AND ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures are measures TKH uses to measure and monitor its operational performance. These measures are used in this Annual Report 2016 but are not defined in any law or in IFRS. The European Securities and Markets Authority (ESMA) have issued guidelines that apply as from 3 July 2016 for the use and disclosure of alternative performance measures. The terms TKH sees as an alternative performance measure are included in this chapter of the Annual Report. The alternative performance measures are marked with \* and includes a definition as required by the ESMA directive.

**Bandwidth:** the transmission capacity of a media, expressed in the number of bits per second. The maximum transmission capacity is 1 Gigabit per second for copper and 600 Gigabit per second for optical fibre.

**Broadband connection:** a collective name for a connection with a high transport capacity. Technically, such a connection can be established by a coax modem, an ADSL modem or using a Fiber-To-The-Home connection. The latter solution currently offers the fastest (internet) connection with a transport speed of at least 10 megabits per second. Symmetric it is many times faster than connections with ADSL and coax modems.

**BEPS (Base Erosion and Profit Shifting):** the negative effect of tax evasion. The OECD works on behalf of

the G20 two years on the so-called BEPS project, which makes recommendations to prevent such harmful tax practices. The aim of the plan is that profits are taxed in the country in which the activities are performed and the added value is created.

**Building Solutions:** solutions in the area of efficient electrical applications within buildings through to technical systems that, combined with software, provide efficiency solutions for the care, parking, infra and security sector.

**Cable accessories:** products with a direct relation to cable and the installation of cable. For example attachment materials (cable caterpillars, swivels, cable terminals, connectors), coding and marking systems (markers, heat shrink tubing, connectors) and tools (cutting, stripping and crimping of lugs).

**Capex (Capital Expenditure):** investments in tangible and intangible non-current assets. Capex spending is the one-time investment.\*

**Capital Employed:** group equity plus long-term debt plus short-term borrowings less times and cash equivalents.\*

**Closed-circuit television (CCTV)** is a term for an image link communication via a closed circuit or network, or in other words, television via a closed connection. There is an absolute control of, or delimiting, the receiving points or spectators.

**C2000:** a closed (private) communication network and intended for use by the Dutch emergency and security services.

**Data communication:** communication of digital information between computers.

**Debt leverage ratio (Net debt / EBITDA):** Long-term debt plus short-term borrowings minus cash and cash equivalents divided by EBITDA.\*

**Dividend payout ratio:** This ratio indicates what portion of the net profit is paid out to shareholders. (Dividend / net profit after tax) times 100.\*

**EBITA:** Result before interest, taxes, impairments and amortization.\*

**EBITDA:** Result before interest, taxes, impairments, depreciation and amortization.\*

**Electro technical engineering / electronics** is engaged in active and nonlinear components (transistors, electron tubes and other semiconductors). In electrical networks, active components resistors, capacitors, coils are merged into switches.

**Extramural care** a form of intensive home care for people with nursing indicator but not included in institution. The goal is to offer care to independently living elderly with nursing care, so moving to an intramural environment can be delayed or prevented.

**Fibre-To-The-Home** the last piece of the network to the user is fitted with optical fibre cable.

**ICT (information and Communication Technology)** rapidly progressing integration is occurring between information technology, that is to say computers, and data and telecommunication.

**Indoor telecom:** telecommunication facilities in the home.

**Industrial Solutions** consist of advanced solutions for production automation, car and truck tire building systems and industrial applications in the area of specialty cable and cable accessories.

**Industry 4.0:** improving the efficiency of production through the integration of machinery to the internet. Production will be adjusted so that more is produced, fewer mistakes and more service-oriented production is possible.

**Innovations TKH:** at least 15% of sales realized from innovations introduced in the previous two years.\*

**Installation cable:** cable for installations for power supply with a tension of maximum 1,000 Volts.

**Internet of Things (IoT):** (temporary) connecting devices to the internet to transfer data.

**Intramural care:** healthcare for an uninterrupted stay of more than 24 hours which is offered in a healthcare institution such as a hospital, nursing home or institution for the mentally handicapped.

**LEAN:** a method to prevent all waste from the production process looking at the value added in a production process. The customer demand is thereby leading within the production process.

**Market capitalization:** The number of ordinary shares outstanding times the closing share price.\*

**Net result per share:** Net result / weighted average shares outstanding. This ratio indicates how much profit a company has available per share.\*

**Operating systems:** systems for controlling, regulating and monitoring of industrial processes, of which the intelligence of the system is composed by computers, PLCs (Programmable Logical Controller) or CNCs (Computerized Numerical Controllers).

**Operational Excellence** the pursuit of excellence results in operational processes. This is done through a high efficiency and optimum quality of the processes, via a low failure rate and waste percentage, reduction of production costs, full control over the process flows, an innovative and flexible organization as well as to meet customer needs.

**Opex (Operating Expenditures):** operating expenses. Opex expenses are the recurring costs of a product or system. \*

**Optical fibre cable** is a cable with one or more coated conductors of very pure glass for the transfer of signals on

a carrier wave of light; applied in data and telecommunication.

**Optical fibre production** optical fibre is produced in a 25-meter high drawing tower in conditioned ultraclean conditions.

**Outdoor telecom:** telecommunication facilities outside the home.

**Passive and active components:** in data and telecommunication a difference is made between components which do and do not need power.

**Point of Presence (POP):** this is the centre (heart) of the network where all connections are made and active equipment is installed and operated.

**Preform:** is a tube of glass and can be compared with a large model of an optical fibre. The preform is much shorter and thicker than the optical fibre, but otherwise an exact copy. The optical fibre is created by pulling out the preform. This is done by inserting the end of the preform in a furnace to be heated to above 2,000°C. At the bottom of the preform a glass drop appears. This is picked up and formed into an optical fibre by pulling the fibre till it has the desired diameter. The dimensions of preforms are present such that from a single preform thousands of kilometers of optical fiber can be pulled. \*

**ROCE:** Return On Capital Employed, being the EBITA for the last twelve months divided by capital employed at

the beginning of the period plus capital employed at the end of the period divided by two.\*

**ROS (Return on Sales):** EBITA divided by total revenues as a percentage.\*

**Solvency:** percentage of the equity relative to the total liabilities.\*

**Specialty cable:** cable for specific applications or custom made for the customer. These cables are often highly flexible, resistant to chemicals or combine different kinds of optical fibres with copper conductors.

**Subsea cables:** consist of three aluminum or copper conductors for conveying the generated energy and a fiber optic cable, intended to send measurement data to the connected systems.

**System concepts:** TKH increasingly specializes in the integration of individual components into total systems. Such systems offer the client a lot of added value and operational safety.

**Technology:** the systematic way of applying new, scientific or other organized knowledge for practical purposes.

**Technology - Vision & security:** CCTV technology in combination with the digital processing of visual information to produce usable images or information for interpretation by people and/or machine. At TKH, vision technology plays an important role in, for

example, medical solutions, industrial automation (tire manufacturing, automotive, robotic and logistics) and in security solutions. Our security technology makes it possible to control and monitor the built environment in the field of safety, comfort, communication and efficiency, and includes alarms, mission critical communication systems, access and registration systems and evacuation systems.

**Technology – Communication:** our communication technologies focus on image transfer, speaking and listening connections, security and control. For security in buildings, the communication technology is usually combined with our vision & security technologies. We promote among others efficiency, safety and security in tunnels, multi-story car parks, extramural and intramural care, airports, football stadiums, schools and financial institutions. We meet the highest requirements with respect to the European directives on safety.

**Technology – Connectivity:** a complete portfolio of connectivity solutions for energy distribution and electrical applications in the construction and infrastructure sectors, as well as fibre-optic systems for data and communication networks. With our connectivity technology, we are able to develop customized specialty cables and connectors, as well as connectivity systems, for the most diverse applications in high-tech environments, including the industrial, marine & offshore, oil and gas and medical sector.

**Technology - Manufacturing systems:** technologies for the control and monitoring of industrial processes, including complete production systems for the production of car and truck tires, tin processing and healthcare industries. Systems engineering and assembly, control and analysis software, as well as connectivity and vision technology, are the basic building blocks for the distinctive production systems supplied by TKH. With these technologies we can respond to the growing wishes of a number of specialized industrial sectors such as the tire manufacturing, robot, medical and machine industries.

**Telecommunication infrastructure:** the entity of cables, plugs, cabinets, etc. that is required to connect telephone, Internet, mobile phone exchanges.

**Telecom Solutions:** consists of solutions ranging from a basic infrastructure to home networking applications, both for outdoor telecom and indoor telecom (ICT) markets.

**Total solution:** by acting as a one-stop-shopping supplier for projects, the subsidiaries of TKH deliver a complete packet of products, including advice, project management, installation, training and maintenance.

**Total Cost of Ownership (TCO):** the sum of Capex and Opex. The Capex expenditure is often high initially but over the life of a system, the Opex will eventually be the largest cost component of TCO. \*



**Vertical market:** is a market in which goods and services are offered which is specific to an industry, trade, profession or other group of customers with specific needs. It differs from a horizontal market, where vendors offer a wide range of goods and services to a large group of customers with a wide range of needs.

**Vertical - Fibre Optic Networks:** TKH develops, produces and supplies complete fibre optic networks, with their associated fibre optic cable connectors, tubes, sleeves, fibre management systems, security systems, robotic systems and other accessories. Everything is plug-and-play, enabling projects to be completed efficiently and on time. Where necessary, we help customers with training and provide support during the engineering process, in the construction of the networks and in maintenance.

**Vertical - Tunnel & Infra:** TKH supplies innovative communication and security solutions for the tunnel and infrastructure sector including integrated image, intercom, public address and camera systems, and fire-resistant connectivity systems. Our solutions meet the high standards for tunnel safety that allow tunnels to be open safely and on time. In addition, we comply with the most stringent conditions for project design and implementation, and we ensure that all system requirements will be met.

**Vertical – Parking:** TKH develops and produces innovative parking systems, ranging from proprietary video analytics technology focused on monitoring parking lots and streamlining traffic in parking garages, to integrated access control, intercom and camera systems. Parking garages can be managed at any time and from any workplace. In addition, TKH has a nationwide service organization. We provide professional project management as well as support and advice on the design and realization of parking projects.

**Vertical – Care:** through a combination of electronic engineering and ICT, TKH provides the healthcare sector with intelligent solutions in the fields of observation, surveillance, visual communication, social alarm systems and video care for hospitals and home care. Our starting point is that monitoring and alarming can be personalized to the individual needs of the client or resident. For the pharmaceutical industry, TKH develops fully automated logistics systems for medicine distribution. In addition, TKH provides total solutions for care and nursing homes, care for the disabled, mental health care and hospitals.

**Vertical - Marine & Offshore:** platforms and ships are complex systems. TKH delivers innovative, fire-resistant connectivity systems as well as integrated security, intercom and communication systems for application on ships and platforms.

#### **Vertical - Industrial Machine**

**Vision:** vision technology consists of camera technology used in combination with the digital editing of visual information to provide usable images or information for interpretation by humans and/or machines. In Industrial Machine Vision, vision technology is used to monitor, verify or adjust industrial processes. We supply the robot, machine building, medical and automotive industries.

#### **Vertical - Tire Building Industry:**

with decades of experience, TKH has developed and refined the manufacturing technology needed to produce superior tires for passenger cars and trucks. TKH designs, produces, delivers and installs innovative tire-building systems that make it possible to build tires with specific characteristics.



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The Annual Report in English is a translation of the official Dutch version. In the event of differences and/or inconsistencies between the English version of the Annual Report 2016 and the official Dutch Annual Report 2016, the latter will take precedence.

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