



ANNUAL REPORT 2017





Hydratec Industries NV

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3812 PK Amersfoort
The Netherlands

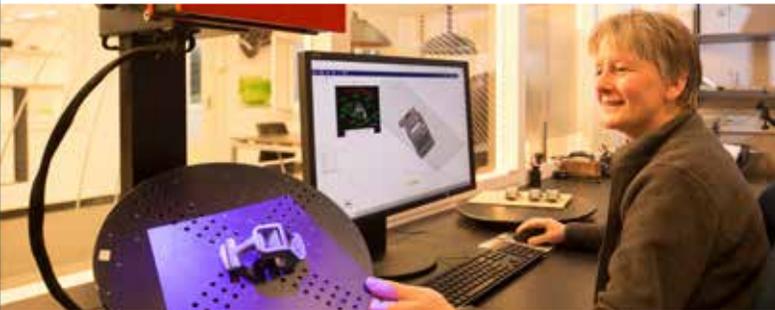
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Chamber of Commerce (Amersfoort) number 23073095.

Disclaimer

This international Annual Report 2017 serves as an indicative and shortened version of the official Dutch Annual Report 2017, which is published on the Company's website www.hydratec.nl. In the case of contradictions, the Dutch version shall prevail.

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FOREWORD FROM THE CEO

Dear shareholders, employees, clients and partners,

On 4 November 2017 it was precisely 20 years since the Hydratec Industries NV share was first listed on the Amsterdam stock exchange. Stock exchange listing isn't something that happens as a matter of course. In a time in which technological developments follow each other ever more rapidly we are forced to constantly adjust to changing situations. Strategic manoeuvrability is crucial for Hydratec. Continuous innovation and improvement enables our companies to develop innovative products that contribute towards the client's success. In addition, these products often result in non-primary functions, such as logistics, finance, maintenance or advice, playing a more important role. This so-called 'servitisation' leads to closer ties with the client and, in some cases, higher margins.

Last year we invested heavily in product development, manufacturing development and market development. All these developments have led to different demands on the organisation and, therefore, on its employees. On top of that, thanks to an economic tailwind a fierce 'battle for talent' has broken out, which means being able to find and retain good employees no longer goes without saying, certainly not at the speed we would wish. In 2017 considerable energy was put into making the Hydratec organisation even more professional and prepared for further growth, both organically and through acquisitions.

Hydratec's organisational structure, with relatively independent operating companies, offers a good context for the dynamism in the various markets, in which sustainability has become a key prerequisite for growth. In this respect reduced raw material usage, reduced product weights, lower energy consumption, lower feed conversion, animal welfare and more (chain) transparency are playing an increasingly important role.

We are becoming more and more aware that a company's long-term success depends first and foremost on the dedicated efforts of its employees and the clients' appreciation of these efforts. This means that we will only be successful if we simultaneously serve the short and long-term interests of our employees, our clients and our shareholders.

I would like to thank all our colleagues for their hard work during the past year. Their commitment and involvement enables us to achieve our goals.

I would also like to thank our clients, partners and shareholders for their trust.

Bart Aangenendt
CEO



PROFILE AND ORGANISATION

BUSINESS BACKGROUND

Hydratec Industries NV is a globally-active specialist in industrial systems and components, with a focus on the Agri & Food, Automotive and Health Tech markets.



Stock exchange listed since 1997



Around 1,000 employees (FTEs)

3 MARKETS



Agri & Food



Automotive



Health Tech

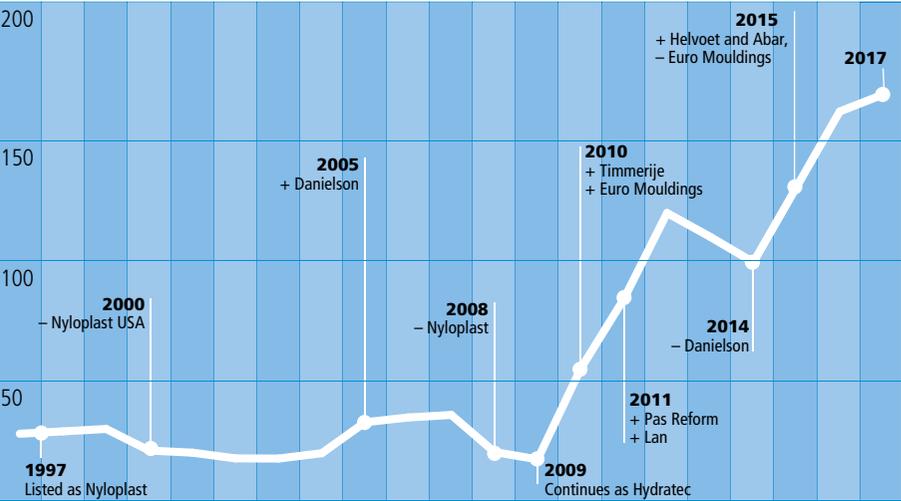
2 CORE ACTIVITIES

Agri & Food Systems

Plastic Components

4 COMPANIES

MILESTONES NET REVENUE (X 1 MLN.)



A PRESENCE IN 12 COUNTRIES

12 Countries
Production and service centres





The supply of integrated hatchery solutions demands specialist knowledge of mechatronics and software.



Pas Reform
Hatchery Technologies



98

Active in the hatchery industry for 98 years



120

Around 120 employees



> 100

Exports to > 100 countries



3

A worldwide presence from 3 main offices

Pas Reform is the world's only single-source supplier of integrated hatchery solutions and has a presence in more than one hundred countries.

Since its founding in 1919 Pas Reform has expanded into an international company offering total solutions to the hatchery industry. Pas Reform is active in the following product groups:

- industrial incubators for the production of uniform, robust day-old chicks;
- hatchery automation systems for the efficient processing of hatching eggs and day-old chicks;
- climate control equipment for sustainable and hygienic air and water treatment;
- hatchery management software for monitoring, analysing and optimising the hatching process;
- service and support for an efficient and reliable operation of integrated hatchery systems.

Pas Reform has extensive experience with providing advice regarding the design, installation and servicing of these product groups.

At the heart of the Company is the Pas Reform Academy which, in close co-operation with clients and universities, carries out research into the influence of the incubation process on chick embryo development. This specialist expertise is used to develop new, innovative products and services for the hatchery industry and to train and coach hatchery managers.

Pas Reform exports to more than 100 countries. Sales and service activities are carried out via the head office in Zeddum and a facility in the USA. Pas Reform also has its own sales offices in Africa, Asia, Europe, the Middle East and South America and an extensive network of local partners and agents. The products are distributed all over the world from the logistics centres in Doetinchem (NL), Jacksonville (USA) and Rio Claro (BR).

Pas Reform's around 120 employees (FTEs) focus primarily on the development, sale, final assembly and service of the hatchery systems.

www.pasreform.com



Knowledge of process control is increasingly important when supplying food handling systems.



Lan
Handling Technologies



37

Active in handling systems
for 37 years



135

Around 135 employees



Multidisciplinary
collaboration leads to
success

2

2 facilities

Lan Handling Technologies' systems are made-to-measure based on standardised and proven technology.

Lan Handling Technologies has been active as a specialist in the handling of packaged and loose products in the global food industry since 1970. Lan offers its clients turnkey solutions for the handling of various products. Lan's systems are made-to-measure based on standardised and proven technology. Over 90% of Lan's revenue is generated outside the Netherlands.

Lan has gained a solid position within the global market for sterilised food products, in part due to intensive partnerships with leading multinationals in the food industry. Inventive robotics combined with robust mechanical solutions and advanced control technologies offer the client an extensive pallet of possibilities. Lan's portfolio also includes so-called End of Line solutions for

handling products up to and including packaging. Its existing product range means Lan Handling Technologies can offer total solutions so clients can develop and expand their key business.

Lan Handling Technologies employs 135 people (FTEs) in its two facilities in Tilburg (HQ) and Halfweg. Lan's own specialists are responsible for system design, construction, assembly and installation. Multidisciplinary co-operation with the client is the foundation upon which the success of Lan Handling Technologies is based.

www.lanhandling.com



Design and production processes that are finely tuned to each other are necessary to ensure a short time-to-market.



86

Active in plastic injection moulding for 86 years



140

Around 140 employees



A leader in the Benelux



50

50 modern injection moulding machines

Timmerije is a leading designer and manufacturer of high-quality plastic products in the Benelux.

Timmerije has specialised in plastic injection moulding since it was founded in Neede over 86 years ago. Timmerije commands the entire process and its over 140 involved RAQ employees guarantee Responsibility, Ambition and Quality. Timmerije achieves smart and sustainable solutions by deploying its extensive expertise and experience on the basis of a professional approach and intensive co-operation between product and process development.

Service is offered by Timmerije's own engineering, tool making, assembly and warehouse departments. Project management, mould construction, maintenance & repair and the compiling of components are carried out under one roof. Timmerije is a leading designer and manufacturer of high-quality plastic products in the Benelux.

Design, production and logistics processes that are finely tuned to each other ensure a planned time-to-market and continuity. Extensive knowledge of materials, moulds and innovative processing techniques give clients an advantage in the market.

Timmerije's machine park is equipped with 50 modern injection moulding machines with closing forces ranging from 25 ton to 1,400 ton and state-of-the-art processes. Series of client-specific components for central heating boilers, chairs, bicycles, household equipment, electrical engineering installations, internal transport systems, the automotive industry and the food & agri industry are manufactured for just-in-time delivery.

www.timmerije.com



Human inspection of quality remains important for process execution.



79

Active in plastic injection moulding for 79 years



640

Around 640 employees



6

6 manufacturing facilities around the world



>200

> 200 injection machines

Helvoet, established in 1939, develops and manufactures client-specific rubber and plastic components and assemblies for high-precision applications.

Most of Helvoet's clients are internationally-operating companies in the automotive, food tech, health tech and industrial control sectors. Components made of plastic (thermoplastic and thermoset), rubber, or a combination of these materials are developed in co-operation with the client. Thanks to its ability to also assemble the components into a half-finished product or a completely functional model in a cost-effective way, Helvoet occupies a unique position in the precision component world.

Helvoet's products are used in a wide range of applications including fuel, brake and drive systems, motor management, dosing systems for beer, coffee and milk, medical cartridges and diagnostic equipment. Series vary in size from medium to very large.

Technology based on plastic and rubber is developing continuously and new possibilities that can rival the generally accepted materials are constantly being announced. The properties of thermoset plastics in particular mean they are increasingly replacing metal components in the automotive industry to reduce weight

and, therefore, environmental-impact. Helvoet's own rubber mixtures, alone or in combination with plastic or metal, are also providing solutions that previously were only possible with traditional materials.

The continuous improvement of product and process quality is another driver of Helvoet's success. Today's demands are extremely high and 'zero defects' is now the standard. The Helvoet companies possess all the quality systems and certification needed for their specific markets. To enable it to maintain this high level of quality Helvoet invests continuously in people, processes and machines.

Helvoet has sales & production facilities in the Netherlands (Hellevoetsluis and Tilburg), Belgium (Lommel), Germany (Munich) and India (Pune) and a sales office in the USA (Detroit). In total Helvoet employs around 640 people.

www.helvoet.com

FINANCIAL HIGHLIGHTS

With € 169 million, **revenue** for 2017 was 4.3% higher than for 2016. Both core activities achieved an increase in revenue.

At 1,036 the **number of employees** at the end of the year was slightly higher than in 2016.

Operating profit amounted to € 8.3 million, an increase compared to 2016 (€ 8.2 million including one-time income of € 0.8 million).

Agri & Food Systems' operating profit of € 4.5 million was 14% higher than in 2016 (€ 3.9 million).

Plastic Components' operating profit of € 5.2 million was slightly lower than the € 5.4 million achieved in 2016, but this included € 0.7 million one-time income.

Net profit attributable to shareholders was € 7.1 million compared to € 5.9 million in 2016.

Shareholders' equity rose from € 48.4 million to € 53.4 million, with solvency of 38.6% (2016: 40.8%).

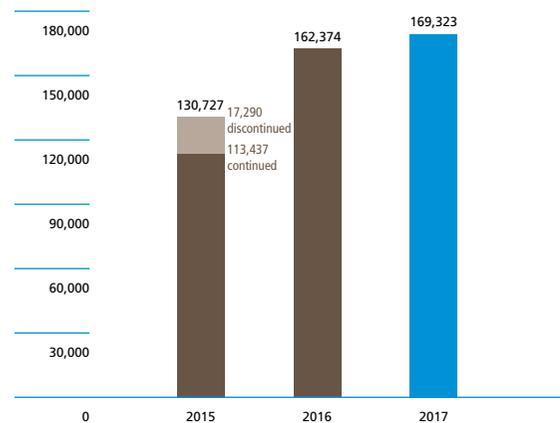
Earnings per share amounted to € 5.60 (2016: € 4.27, excluding one time income of € 0.45).

The proposed dividend for 2017 is € 2.25 per share, an increase of 32% compared to 2016.

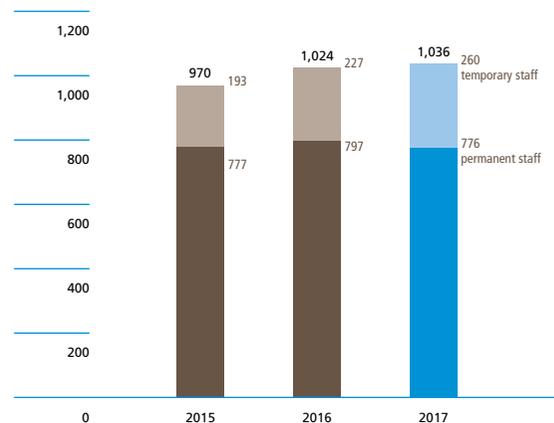
KEY FIGURES 2017

Amounts in thousands of euro unless stated otherwise

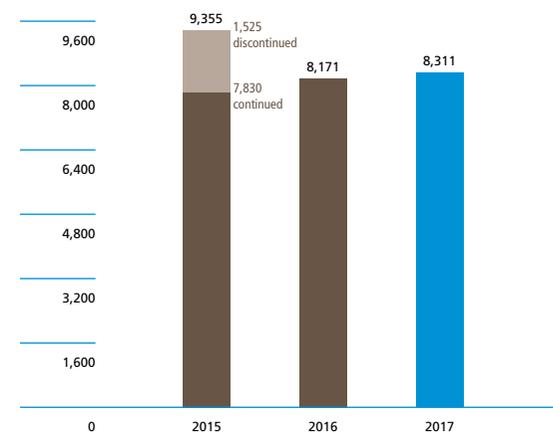
Net revenue



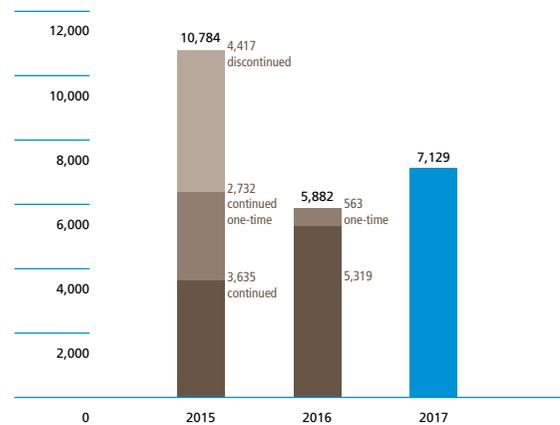
Number of employees (FTEs at year end)



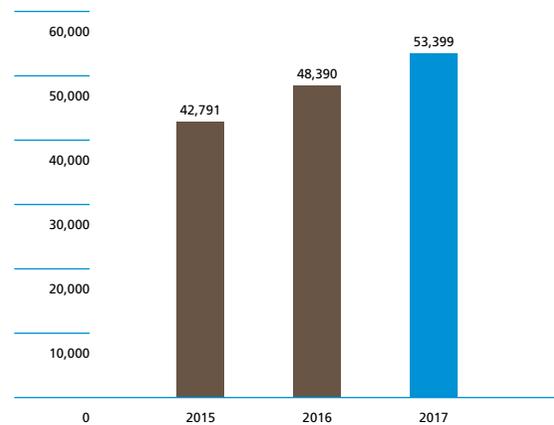
Operating profit



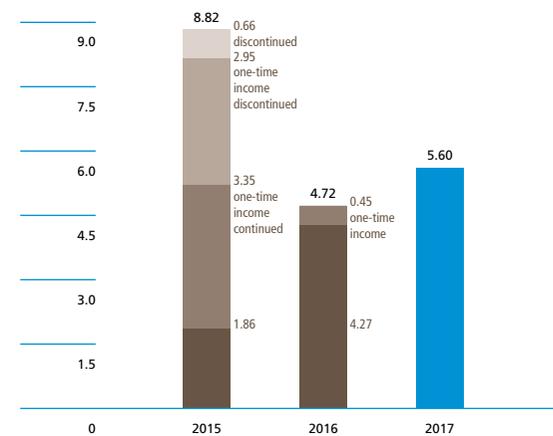
Net profit (attributable to shareholders)



Shareholders' equity



Earnings per share (in euro)



Profit and loss account	2017	2016
Net revenue	169,323	162,374
Operating profit	8,311	8,171
Net result	7,129	5,882
Net profit attributable to shareholders	7,129	5,882
Cash flow		
From operating activities	13,962	5,760
From investing activities	- 8,000	- 8,085
From financing activities	- 334	- 524
Net cash flow	5,628	- 2,849
Balance sheet		
Shareholders' equity	53,399	48,390
Balance sheet total	138,282	118,463

Key ratios	2017	2016
Operating profit as a % of revenue	4.9%	5.0%
Return on invested capital ¹	11.8%	9.5%
Return on shareholders' equity ²	14.0%	11.7%
Solvency ³	38.6%	40.8%
Number of issued shares	1,275,293	1,272,597
Earnings per share (in euro)	5.60	4.72
Number of own employees ⁴	776	797

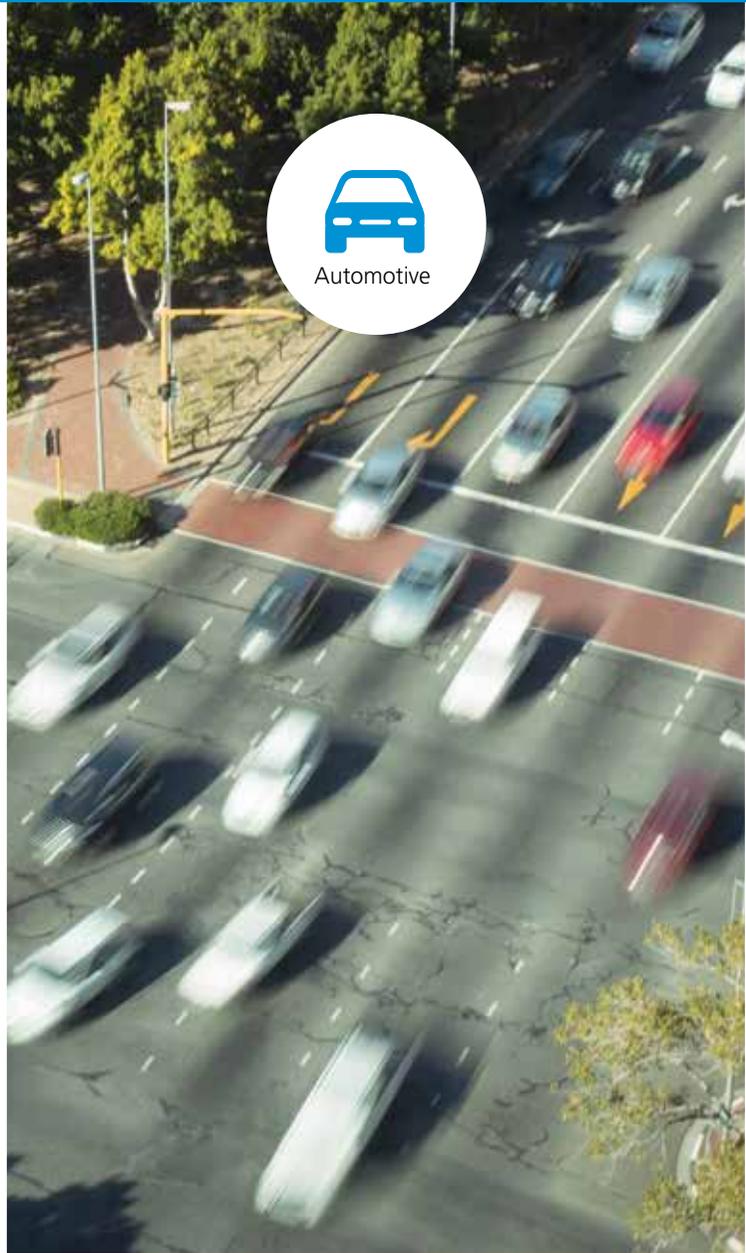
¹ Net result excluding one-time income + interest expense as a % of the invested capital (total assets minus cash and cash equivalents minus current non-interest-bearing liabilities).

² Net result excluding one-time income as a % of the average shareholders' equity attributable to Hydratec's shareholders.

³ Shareholders' equity as a % of the balance sheet total.

⁴ FTEs at year end.

MARKETS



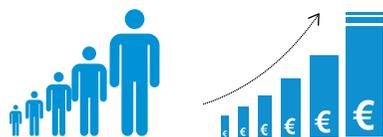
STRATEGY AND FINANCIAL TARGETS

STRATEGY

Hydratec is a globally-active specialist in industrial systems and components, with a focus on the Agri & Food, Automotive and Health Tech markets. Hydratec has two core activities: Agri & Food Systems and Plastic Components.

To meet the growing need for food, Agri & Food Systems supplies complete systems on a project basis around the world. This market is heavily dependent on macro-economic factors as is the spreading of risks.

Experts forecast that the global use of plastic will treble by 2050. The activities related to the industrial supply of Plastic Components are responding to this and have a more capital-intensive and process-related character so are less volatile.



The Hydratec-companies are well positioned for the growing global population and the rising standard of living.

The Hydratec companies' clients are active in the following market segments:

- **Agri & Food**

To enable the world's growing population to continue being fed, the Agri & Food market will continue growing. The consumption of chicken in particular is expected to continue rising structurally worldwide and, due to rising standards of living, a substantial growth of convenience food and pet food production is also anticipated. As a result, food safety and animal welfare will play an increasingly important role.

- **Automotive**

The need for mobility is expected to continue rising as the world population increases. More stringent sustainability demands will lead to the development of other concepts and certainly to demands related to reducing the weight of vehicles. This trend offers opportunities for the replacement of relatively heavy metal components with lighter plastics with fewer design constraints.

- **Health Tech**

Increased welfare and longevity will result in a steady growth of the Health Tech market. Many developments are taking place, such as new diagnosis methods and new treatment delivery systems. Quality and hygiene specifications and stipulations are very stringent in this industry, for example, point-of-care diagnostics are assembled in clean room conditions.

Sustainability has become a major prerequisite for growth in all these markets. This not only means achieving more with less raw materials, but also that environmental-impact and society's acceptance of issues will play an increasingly important role in everything we and our clients do.

The strategy is aimed at the achievement of consistent, long-term revenue and result growth that at a minimum conforms to the market by every Group company. Towards this end we strive for leading positions in the various markets that make achieving high added-value for the end users possible. Functions that contribute towards the client's success, and therefore for which means are available, are continuously being developed. It's not only the primary functions that are being improved, so too are the functions that take the worries off the client's shoulders, such as logistics functions, financing, maintenance and advice. This servitisation leads to closer ties with the client and, therefore, higher margins. The smart application of new technologies will enable us to make a difference for our clients and will broaden our offering to existing purchasers. Because the price of our products and services will remain a powerful competitive weapon for healthy growth, considerable energy is being put into various Operational Excellence programmes.

The strategic market positions and options of each company are evaluated annually, partly in the light of the achieved results. These evaluations form the basis for decisions regarding long-term investments and priorities in

The smart application of new technologies will enable us to make a difference for our clients.

respect of product-market developments. This must offer our shareholders the prospect of a consistent and good return. We strive for the expansion of our existing activities and the possible broadening of our industrial activities through acquisitions and collaborations. All the current activities provide a basis for a so-called 'buy and build' acquisition strategy. At the same time, activities can be divested if we are convinced they will achieve better structural development within other business organisations and, therefore, offer insufficient longer-term potential for Hydratec.

ENTERPRISING MANAGEMENT AND EMPLOYEES

It is essential that every one of the companies has good and motivated management and employees. Only then can they be deemed manoeuvrable organisations that can react quickly to changing conditions. An economic tailwind has led to a fierce 'battle for talent' breaking out and extra attention is being paid to finding and retaining good employees, for example through the structural offering of work placement and trainee places in our companies. Management must be capable of identifying market opportunities, developing innovative products and steering their own organisations in a practical and stimulating manner. All these developments also lead to changing demands on the organisation. This is why the employees' personal development is promoted continuously, including through training, on the basis of ambitious, but realistic, targets derived from scenarios that form a guideline for everyone involved.

The Management Boards of Hydratec's companies are responsible for carrying out their own operating activities within a clear framework of decisions that require the approval of the Hydratec Management Board. These

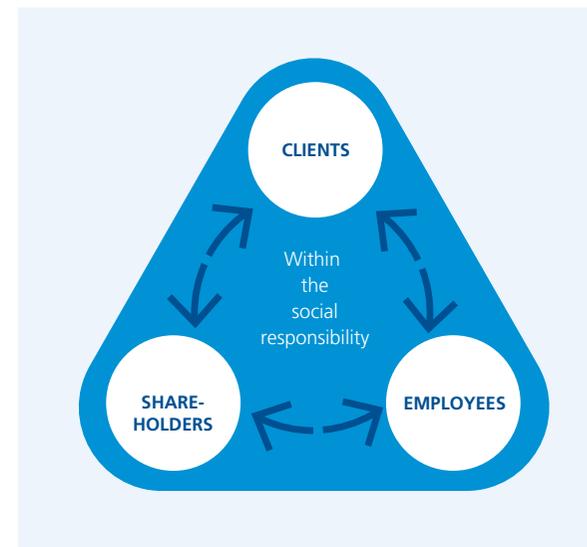
decisions relate primarily to budgeted investments, major organisational changes and fundamental amendments to business operations. All business aspects, including the development of the results, are discussed during the regular consultation meetings between Hydratec's Management Board and the Management Boards of the operating companies. These discussions are based on a clear framework of regular reports, including analyses of the most important performance indicators. Many additional informal consultations and discussions also take place.

Because manoeuvrability and entrepreneurship take centre stage within the different Group companies there is no basis for central staff departments. This enables overhead costs to be limited to the minimum.

FINANCIAL TARGETS

Sufficient continuous investment can only take place, and a buffer against setbacks can only be built-up, if the companies within Hydratec achieve healthy profitability. In concrete terms this means that the target for every company is an operating profit of at least 8% to 10% of revenue. This target may, however, be temporarily unachievable primarily as a result of economic conditions or organisational adjustments that are deemed necessary.

Together with the envisioned growth and a solvency of at least 35%, Hydratec strives for a dividend distribution of at least 40% of the profit after taxes (excluding any one-time income).



A company's long-term financial success depends on the dedicated efforts of its employees and the clients' appreciation of these efforts.

INFORMATION FOR SHAREHOLDERS

STOCK MARKET LISTING

Hydratec's shares are listed on NYSE Euronext Amsterdam (ISIN NL 000 939 1242). The total number of issued shares as at 31 December 2017 was 1,275,293.

FINANCIAL CALENDAR 2018

Announcement of annual figures	23 March
Trading update first quarter	9 May
General Meeting of Shareholders	30 May
Publication of half-year figures	26 July
Trading update third quarter	9 November

DISCLOSURE OF MAJOR HOLDINGS ACT

In the context of the Disclosure of Major Holdings Act, as at 5 April 2018 the following holdings of more than 3% were known:

Shareholder	Interest	Date of disclosure
A.C. ten Cate	23.1%	21 March 2017
F. ten Cate	23.1%	21 March 2017
J. ten Cate	23.1%	21 March 2017
P. Chr. van Leeuwen Beheer B.V.	5.7%	9 May 2014
B.F. Aangenendt	5.5%	30 June 2016
M. Spriensma	3.1%	2 December 2014

FINANCIAL DATA PER ORDINARY SHARE

Amounts in euro unless stated otherwise

	2017	2016
Number of issued shares	1,275,293	1,272,597
Weighted average number of shares	1,273,960	1,246,886
Operating profit	6.52	6.55
One-time income	0	0.45
Earnings per share	5.60	4.72
Shareholders' equity attributable to shareholders of Hydratec	41.92	38.81
Available cash flow ¹	4.68	- 1.86
Dividend	2.25	1.70
Price at year end	55.03	44.30
Lowest price	44.06	30.35
Highest price	64.00	48.00

¹ Sum of operating and investment cash flows.



MEMBERS OF THE SUPERVISORY BOARD



From left to right: Mr. J.E. Vaandrager, Mr. E. ten Cate and Mrs. M.E.P. Sanders

E. ten Cate (1945) — Chairman

First appointed: 2000

Current term ends: 2020

Current position: Director Bank ten Cate & Cie N.V.

Supervisory Board memberships/other positions held

Member of the Supervisory Board, Medisch Spectrum Twente

Member of the Supervisory Board, Hendrick de Keyser

J.E. Vaandrager (1943) — Vice-chairman

First appointed: 2011

Current term ends: 2019

Last position held: member of the Board and CFO, TKH Group NV

Supervisory Board memberships/other positions held

Member of the Supervisory Board, B.E. Semiconductor Industries N.V.

M.E.P. Sanders (1953)

First appointed: 2017

Current term ends: 2021

Last position held: Member of the Supervisory Board, Kendrion N.V.

Supervisory Board memberships/other positions held

Member of the Supervisory Board, Stern Groep

Chairman of the Investment Committee, SI2 Fund

Chairman of the Advisory Board, Difrax Beheer B.V.

Member of the Supervisory Board, Hoens Broadcast Facilities B.V.

Member of the Board, Stichting TivoliVredenburgfonds

All the Supervisory Board members are Dutch nationals.

REPORT OF THE SUPERVISORY BOARD

Last year was a good year for Hydratec Industries NV.: All the companies were able to improve their result. The net profit for shareholders amounted to € 7.1 million from revenue of € 169 million. In 2016 the net result amounted to € 5.8 million.

ANNUAL REPORT

We hereby submit the 2017 annual report, including the annual accounts, of Hydratec Industries NV prepared by the Management Board. The annual accounts have been audited by Baker Tilly Berk accountants and were discussed by us and the Management Board on 22 March 2018 in the presence of the Auditor. The Auditor's report is included on pages 78 to 83 of the official Dutch 2017 annual report, which can be found on www.hydratec.nl. On these grounds we are of the opinion that the annual report meets the specifications for transparency and forms a good basis for the Supervisory Board's accountability in respect of its supervision. We recommend that the shareholders adopt the annual accounts, approve the dividend proposal and discharge the Management Board for its management and the Supervisory Board for its supervision during 2017.

COMPOSITION OF THE SUPERVISORY BOARD

The members of the Supervisory Board are listed on page 20. The profile sketch of the Supervisory Board is published on the Company's website. The background and experience of the Supervisory Board members is diverse. One Supervisory Board member spent his entire career working in a variety of functions in different companies and ended his active career as a member of the Board and the CFO of a stock exchange listed concern. The second Supervisory Board member is an experienced entrepreneur who for many years has also been closely involved with

Hydratec's development into the company it is today. In 2017 Mrs. M. Sanders joined the Board. Mrs. Sanders has experience as an entrepreneur and as a member of various Supervisory Boards. The Supervisory Board is of the opinion that this variety of experience and background provides a good diversity. The composition of the Supervisory Board is such that the members can act independently and critically towards each other and the members of the Management Board.

SUPERVISION

Hydratec's targets for 2017 were ambitious, but were not achieved in full due to the growth of the larger companies' results being lower than budgeted. The Supervisory Board endorses the Management Board's policy of investing in product development, strengthening technical know-how, improving production capacity and reinforcing the market position. In 2017 the investments in tangible non-current assets were higher than the depreciation, a circumspect approach was taken in respect of changes in the workforce and all the companies focused on cost management and margin improvement. The report of the Management Board includes a detailed explanation of these topics.

In the opinion of the Supervisory Board, Hydratec's risk profile has not changed. No exceptional or unexpected setbacks occurred in 2017. It is encouraging that the different business activities managed to achieve satisfactory results. Attention was paid to the risk management system and did not bring forth any singularities. This evaluation also showed that Hydratec is not large enough to have its own internal audit function. The Group Management Board and the Management Boards of the operating companies should be complimented for their success in further developing the companies. In 2017 the Supervisory

Board met twice with the external Auditor, on one occasion in the absence of the Management Board. The tasks of the external Auditor were evaluated and the audit plan approved. In addition, during one meeting the Supervisory Board evaluated the functioning of the Management Board and its own Board in the absence of the Management Board. During this discussion nothing of a special nature came to light.

REMUNERATION POLICY

The Supervisory Board of Hydratec Industries NV applies a remuneration policy for the Company's Management Board that is based on the following principles:

- The Management Board remuneration policy must enable good Managers to be recruited and retained.
- The remuneration policy must be in accordance with the Company's Corporate Governance policy.
- The remuneration must be compatible with the strategic and financial targets and be performance-oriented, whereby there should be a good balance between short-term and long-term results and/or targets.
- The remuneration may not include any incentives that are aimed at the recipients own interests and conflict with the interests of the Company.

The remuneration policy for Hydratec's Management Board is approved by the General Meeting of Shareholders. The actual remuneration of the Management Board is decided by the Supervisory Board. The salaries of the Board of Management members depend partly on the results and are awarded via a bonus scheme that is compiled as follows:

- The decision to award the bonus is made in March during the discussion of the annual figures;

- The bonus may be a maximum of 50% of the fixed salary;
- 30% of the maximum bonus is dependent on the achievement of personal targets aimed at the Company's long-term development and its awarding is at the discretion of the Supervisory Board;
- 70% of the maximum bonus is dependent on the operating profit, with a threshold. After the bonus is awarded the Management Board member may opt to convert half the awarded bonus into Hydratec shares. These shares will then be issued at the average price during January and February and may not be traded for three years.

Any termination recompense will comply with the stipulations of the Dutch Corporate Governance Code and will not, therefore, amount to more than one year's salary. There is a pension plan for Management Board members whereby above a threshold amount the member is expected to make a personal contribution. The Supervisory Board assesses the actual salary of the Management Board members in respect of the remuneration policy on a regular basis and, if necessary makes an adjustment. Changes to the salary policy are put before the General Meeting of Shareholders.

The annual fixed salary of the Management Board members was determined by the Supervisory Board on the basis of the stipulations listed above in 2015. The fixed salaries are indexed for inflation on a regular basis. No loans were granted or termination recompense paid. The remuneration of the Management Board members, and the bonus awarded for the 2017 financial year, are specified in Note 1.24.3 on page 56 of the official Dutch 2017 annual report, which can be found on

www.hydratec.nl. The Supervisory Board has decided to award the members of the Management Board a bonus in respect of the 2017 financial year that is partly based on the achieved operating profit. The members of the Management Board have decided to convert part of their bonus for 2016 into shares and have indicated this is also their intention in respect of the 2017 bonus.

The remuneration of the Supervisory Board is determined by the General Meeting of Shareholders. The remuneration of the Supervisory Board is not dependent on the results achieved by the Company and the members of the Supervisory Board are not paid any remuneration in the form of shares or share options. During the General Meeting of Shareholders on 20 May 2010 the remuneration of the Supervisory Board was fixed at € 19,000 per annum per member. This is in line with the Supervisory Board remuneration of comparable stock exchange listed companies. The remuneration of the Supervisory Board members in 2017 is specified on page 55 of the official Dutch 2017 annual report, which can be found on www.hydratec.nl.

COMPOSITION OF THE MANAGEMENT BOARD

There were no changes to the Management Board of Hydratec Industries NV during 2017. Mr. B.F. Aangenendt is CEO; Mr. M.C. van den Burg is CFO.

SUPERVISION AND MEETINGS

During 2017 the Supervisory Board held five scheduled meetings with the Management Board. All the Supervisory Board members attended these meetings. Prior to the General Meeting of Shareholders on 31 May 2017 the Supervisory Board evaluated the functioning of the Management Board and its own Board in the absence of the Management Board.

During its meetings the Supervisory Board discussed the strategy, acquisition policy, risk management, personnel policy, quarterly and half-yearly results, 2017 annual figures and budget for 2018. The remuneration policy was also discussed as was the effects of the economic situation on the markets in which Hydratec companies are active and the measures needed to mitigate these effects and maintain the profit level. Attention was also paid to amendments to legislation.

Last year was a good year for Hydratec: all the companies were able to improve their result.

CORPORATE GOVERNANCE

The Supervisory Board endorses the objectives of the guidelines contained in the Dutch Corporate Governance Code for stock exchange listed companies. No conflict of interest occurred during 2017. Hydratec also deviates from the Code in the following ways:

- In view of the Company's size no internal auditor has been appointed (§V.1.3).
- Mr. E. ten Cate (Chairman Supervisory Board) does not comply to the independence criteria as set out in the Code, given the fact that his relatives in the first grade own a package of shares of more than ten percent (§ 2.1.9).
- Hydratec believes that experience with and knowledge of the Company forms an important basis for the functioning of the Supervisory Board and should be a determining factor in respect of the length of a Supervisory Board member's term. For this reason no maximum term has been set for Supervisory Board members. At the end of every term a Supervisory Board member may, after careful consideration, be reappointed for a new term (§ 2.2.1).
- Webcasts of presentations to investors and analysts are not offered as Hydratec is a so-called auction fund (§ 4.2.3).

The Code of Conduct has been implemented in all Hydratec companies.

IN CONCLUSION

The Supervisory Board is grateful to the Management Board, the management teams and all the employees for their efforts, dedication and ambition during 2017 and the results they achieved in this year.

Amersfoort, 5 April 2018

Supervisory Board

E. ten Cate Chairman

J.E. Vaandrager Vice-chairman

M.E.P. Sanders

MEMBERS OF THE MANAGEMENT BOARD



B. (Bart) F. Aangenendt (1964)

Statutory Director

CEO

First appointment: 2012 (member of the management board)

First (statutory) appointment: 2015 (CEO)

Current term ends: 2020

M. (Mark) C. van den Burg RC (1969)

Statutory Director

CFO

First (honorary) appointment: 2012

First (statutory) appointment: 2015

Current term ends: 2019

Both members of the Management Board are Dutch nationals.

From left to right: Mr. M.C. van den Burg and Mr. B.F. Aangenendt

REPORT OF THE MANAGEMENT BOARD

GENERAL

Hydratec Industries NV's revenue for 2017 amounted to € 169 million - an increase of 4.3% compared to 2016. Both core activities achieved growth: Agri & Food System's revenue rose by 8.5%, Plastic Components' revenue increased by 1.7%.

All the Hydratec companies achieved a better result from normal business operations than in the previous year. In 2017 considerable energy was put into making the organisation even more professional and preparing it for further growth, both organic and through acquisitions.

In the Plastic Components core activity, Helvoet was able to add the Kaniow facility of our former supplier in Poland to the Group as of 1 January 2018. In the Agri & Food Systems core activity, Pas Reform acquired the remaining 50% of the shares of NatureForm in the USA at the beginning of 2018: NatureForm's results will, therefore, be consolidated from 2018.

FINANCIAL DEVELOPMENTS

At € 8.3 million the operating profit for 2017 was only slightly higher than for the previous year (€ 8.2 million), but the figure for 2016 included one-time income of € 0.8 million. The operating profit within Agri & Food Systems was € 4.5 million - 14% higher than the € 3.9 million achieved in 2016. Plastic Components achieved operating profit of € 5.2 million. Although this was slightly lower than the previous year, the € 5.4 million achieved in 2016 included one-time income amounting to € 0.7 million. Net profit attributable to shareholders increased by 21% to € 7.1 million (2016: € 5.9 million), mainly due to a substantial lowering of the effective tax rate.

Financial income and expenses

Financial liabilities amounted to € 1.0 million in 2017 compared to € 1.3 million in 2016. At the end of 2017 Hydratec's balance of cash and cash equivalents was € 7.2 million (2016: € 1.9 million). At the end of 2017 both bank credit and debt were reduced by € 14.7 million (2016 € 6.7 million) through the cash pooling facilities. Interest bearing loan capital rose slightly from € 16.2 million to € 17.2 million.

Fiscal effects

The effective tax rate in 2017 was 2.7% compared to 14.9% in 2016. This resulted in tax payable of € 0.2 million (2016: € 1.0 million) in the profit and loss account. The relatively low tax rate was due mainly to the capitalisation of deferred tax receivables.

Net result

The 2017 net result for shareholders amounted to € 7.1 million compared with € 5.9 million in 2016. However, the result for 2016 also included net one-time income of € 0.6 million, which was the result of the sale of the lens activities and a profit from an goodwill. Corrected for these items net result rose from € 5.3 million to € 7.1 million.

Cash flow

In 2017 operational cash flow amounted to € 14.0 million (2016: € 5.8 million). The increase was due primarily to an increase in advance payments for projects by clients of the Agri & Food companies. At € 8.0 million negative, cash flow from investing activities was virtually the same as in 2016 (€ 8.1 million negative). Net cash flow from financing activities amounted to € 0.3 million negative and was the result of dividend pay-outs totalling € 2.2 million and a net inflow from the non-current loans amounting to € 1.8 million.

Balance sheet

Solvency fell from 40.8% in 2016 to 38.6%. The drop in solvency was due to the balance sheet total rising from € 119 million to € 138 million, mainly as a result of advance payments for Agri & Food projects. The higher overall activity level during the last quarter of 2017 also caused an increase in operational working capital. The positive bank balance also rose.

**Net result rose by 21%
from € 5.9 million to € 7.1 million.**



Pas Reform
Hatchery Technologies

OUR COOPERATION

'We were impressed by the dedication of the team'

Why Pas Reform?

Don Davis, Complex Manager at Koch Foods, comments: 'We have worked with NatureForm for many years now and were always of a mind to change over to single-stage incubation. Our goal is to put the absolute best chick possible in the field. So, we started trials with Pas Reform single-stage equipment in our Henagar operation and the results have clearly shown the advantages of the SmartPro™ system.'

Best team on the ground

Gary Davis, Vice President Eastern Division at Koch Foods, adds: 'We were also very impressed by the dedication and expertise of their team during both the trial period and the discussions of the new project. It has become our firm belief that NatureForm and Pas Reform have the best team on the ground in the USA.'

Successful improvements

He further adds: 'Once we saw improvements in hatch and feed conversion rates, we worked with the Pas Reform/ NatureForm team to evaluate the project's viability and, based on return on investment calculations, our experience with the renovation of our Crossville facility and the very comprehensive support package that has also been a key success factor for other major hatcheries in the USA, the project was approved.'



KOCH FOODS

Leading producer of chicken products in the United States.

Dividend proposal

Earnings per share amounted to € 5.60. Earnings per share in 2016 amounted to € 4.72 of which € 0.45 was related to one-time income. It will be proposed to the General Meeting of Shareholders that a dividend of € 2.25 per share be paid out for the 2017 financial year (2016: € 1.70). This dividend distribution is in line with the policy of paying out at least 40% of the profit after taxes (excluding one-time income). This sum will be paid in cash. The net result for 2017 will be added to the other reserves.

DEVELOPMENTS IN THE AGRI & FOOD SYSTEMS

Pas Reform Hatchery Technologies and Lan Handling Technologies

The most important markets for Agri & Food Systems are the global poultry, convenience food and pet food markets. In 2017 these markets developed positively. Revenue from Europe, Asia and North and South America increased, but revenue from Central America lagged behind. There are many factors that affect the willingness to invest in the various markets, including local legislation/subsidies, currency exchange rates, feed prices and regional poultry diseases. This is why a good spread across different countries and clients with a wide range of products is very important within Agri & Food Systems. At the same time, specialism and standardisation are needed in order to remain cost effective.

The market in which our Agri & Food companies operate is paying more and more attention to sustainability in the broadest sense – from the efficiency of food production in general, to animal welfare and the energy usage of our systems. Our clients are also consolidating and their procurement is becoming more professional.

In 2017 we put considerable effort into product development with a focus on cost reduction on the one hand and increasing our market share on the other hand. The aim is market-oriented developments that deliver more to the clients in terms of aspects such as efficiency, sustainability or transparency. The importance of knowledge about the client's operations is increasing, for one reason because this is often the basis for the development of new products that will offer existing clients more functions. We took major steps towards our development from a machine builder to a supplier of systems offering integrated total solutions.

x € 1.000	2017	2016
Revenue	66,341	61,161
Gross margin	29,284	26,945
Depreciation and amortisation	1,009	995
Investments	756	774
Operating profit	4,490	3,936
Number of FTEs at year end	254	230

In 2017 Agri & Food Systems' revenue rose by 8.5%. All of this growth was organic. Because a portion of this revenue was generated from larger projects, gross margin as a percentage of revenue remained the same at 44.1%. Investments were related to improving the ICT in order to support Agri & Food Systems' development into a supplier of total solutions, for example through Product Data Management systems.

To make the growth foreseen for Lan Handling Technologies possible, in 2017 the decision was taken to build a new office and production facility a short distance



Lan
Handling Technologies

OUR COOPERATION

Working together globally

Del Monte, USA

Doug van Diepen,
Engineering Manager

'Across four major projects with Lan, each has exceeded my expectations for innovation, cost, meeting deadlines and reliability. Systems installed in 2005 are still performing to my expectations – and I highly recommend Lan's people'

Kartoffel-Böhmer, Germany

'Lan und Kartoffel-Böhmer haben gemeinsam das richtige Gespür für innovative Lösungen zur Automatisierung'

La Normandise, France

François Duquesne, Technical
and Quality Director

'For more than 20 years we have worked with Lan in partnership, to create reliable, innovative installations that run 24/7'

Nestlé Purina, Australia

Tony Mansfield, Project
Engineer

'We worked with Lan to install and commission large scale systems for the launch of pet food in pouches. The project faced some unique challenges, but our experience with Lan was excellent from inception to completion and support across time zones has never been an issue'

Tilda, United Kingdom

Glyn Walker, Head of
Operations

'Lan has been an excellent automation partner for many years, providing integrated solutions for our business that are safe, innovative and of high quality'





'Relevant expertise in the field of plastics technology'

OUR COOPERATION

Technology is what binds us

'Both Vanderlande and Timmerije are active in a market in which technology plays an important role. Timmerije supplies not only technical components but also the relevant expertise in the field of plastic technology.'

Measurable positive results

'Timmerije's involvement in Vanderlande's development process at an early stage resulted in functional and constructive input that has led to measurable positive results.'

Successful projects

'The result of our cooperation has been successful projects in which the products Timmerije supplies to Vanderlande have the right QLTC (Quality, Logistics, Technology, and Cost) ratio.'

Carl Hoeks

Sourcing Manager
Vanderlande Industries



One of the global market leaders in the field of process automation solutions for warehouses and for the value-optimised automation of logistics processes at airports and in the package market.

away from Lan's current premises. Several investments towards this end have already been made. Lan's accommodation has been sub-standard for many years. The Company has hired various premises on a temporary basis and currently occupies 4,000m² of production area spread across several locations. The new building will have 5,000 m² of production area and offices. The building project will be at the Company's own risk for the time being, a so-called sale and lease back construction could be opted for at a later date.

Agri & Food Systems' operating profit of € 4.5 million amounted to 6.8% of revenue - an increase of 14% compared to 2016. In 2017 NatureForm Hatchery Technologies in the United States achieved revenue of € 5.9 million with a modest net result. Due to the market potential and to extend the position in the United States, negotiations to acquire the remaining 50% of the shares in NatureForm were started. Agreement was reached and as of January 2018 Pas Reform is in control and NatureForm's results will be consolidated.

Both Pas Reform and Lan Handling Technologies occupy good positions in their markets and in 2017 Agri & Food Systems' order intake was significantly higher than in 2016 and, therefore, very encouraging.

DEVELOPMENTS IN THE PLASTIC COMPONENTS

Helvoet Rubber & Plastics Technologies and Timmerije

The most important markets for Plastic Components are Automotive, Health Tech and Agri & Food. The focus on sustainability in these markets is increasing. This means that, in addition to cost price, reducing the weight of components and material usage, reusing residual materials and limiting energy usage are becoming more and more

important. The Plastic Components companies have a number of high-quality production technologies at their command, such as injection moulding of thermoplastic and thermoset products and the capability to bind their own rubber composites to these plastics. One key technology is the assembly of these components into functional modules. This often takes place completely automatically with the help of robots and vision technology.

In general the size, professionalism and power of the clients are increasing, which can lead to volume growth but, at the same time, can put pressure on prices. This is why it is important that we take more worries off clients' shoulders by fulfilling additional functions, such as engineering activities and logistics services.

To enable potential and existing clients to be made more aware of its specific application expertise, in 2017 sales and marketing efforts within Plastic Components were further intensified. This has improved client contact and increased our knowledge of clients' needs. The search for ways to reduce material usage continues. By focusing more on process quality the quantity of waste has been reduced still further and the predictability of product quality has been improved. Considerable attention has also been paid to the re-use of raw materials and recycled plastics are being used in various products. This leads not only to potential cost benefits but also to a more sustainable use of the raw materials. Because Plastic Components operates in a competitive market, cost reduction has a high priority, which means production efficiency is increasingly important.



OUR COOPERATION

'We have the same entrepreneurial spirit'

Bimeda and Helvoet: a good combination

Bimeda and Helvoet are similar sized companies with multiple manufacturing locations around the globe, that manufacture and supply products of impeccable quality at affordable prices. Both companies are smaller in size than the multinational giants and have similar management styles, an entrepreneurial spirit, have open communication with customers and suppliers, are solution oriented and are both capable of making decisions quickly.



Open communication essential

We have very open communication, have a reliable business with each other going back three decades and we have overcome any obstacles that have been put in our way over the years.

Growth through cooperation

Our businesses have grown at similar pace to our overall companies growth and we have experienced a 300% growth in our business together over the past decade.

Ronan Fuller

Production, distribution and marketing of veterinary medicines and animal health products

REPORT OF THE MANAGEMENT BOARD

x € 1.000	2017	2016
Revenue	103,857	102,089
Gross margin	60,266	58,203
Depreciation and amortisation	4,447	4,547
Investments	7,266	7,716
Operating profit	5,178	5,354
Number of FTEs at year end	779	791

Plastic Components' revenue rose by 1.7%. More growth was achieved by Timmerije than by Helvoet. Gross margin as a percentage of revenue rose from 57.0% to 58.0%. Operating profit for 2017 was lower than for 2016 when it included € 700 one-time income from the sale of the lens activities. Excluding this one-time income operating profit rose by 11% from € 4,570 (4.5% of revenue) to € 5,178 (5.0% of revenue).

The considerable investments within Plastic Components in 2017 included new injection moulding machines both for replacements and expansion. These new machines enable advanced injection moulding and assembly processes for complex products to be carried out in an energy-efficient way. This has led to a further reduction of waste and a more predictable product quality. Costs were also incurred to enable components to be produced at the right location. The production of several components was re-located to our supplier in Poland. As of 1 January 2018 Helvoet has been able to add this facility in Kaniow to the Group. At Helvoet in Tilburg production space was made ready for the installation of an extra production line.

Both Helvoet and Timmerije revamped their websites and focused more sharply on the acquisition of new clients in

niche markets. Plastic Components offers specific applications based on four core technologies: thermoplastic and thermoset injection moulding, rubber technology and (automated) assembly processes. This has led to important orders for the future production of components for new and existing clients.

PERSONNEL AND ORGANISATION

Personnel policy per operating company

The long-term success of a company is dependent on the motivated efforts of its employees and its clients' appreciation of these efforts. As a principle we strive for strong local organisations with a high degree of entrepreneurship and a sense of responsibility for all business processes. Every operating company within the Group has drawn up a Code of Conduct to which its employees and Management commit themselves to adhere. The personnel policy is implemented at the operating company level.

At this level attention is paid to safety, accident prevention and absenteeism through sickness, but above all to the creation and maintenance of a loyal organisation with flexibility and ambition. When possible, people with poor employment prospects are offered opportunities to develop themselves, sometimes via a sheltered workshop. Within every company there is regular and constructive

consultation with the local Works Council. The central Management Board participates in this consultation once a year. Despite the difficult labour market, in 2017 we succeeded in recruiting many new talented employees.

Health, safety and the environment

A focus on good, and above all safe, working conditions is vital for maintaining a consistently-controlled and high-quality production process. Paying constant attention to employees, and in particular their working conditions, is a key factor for all the companies. This not only minimises absenteeism through sickness, it also guarantees maximum safety within the production processes. Programmes aimed at introducing continuous improvement are in place at, and implemented by the employees of, every Hydratec company.

Virtually every industrial process involves environmental risks. Limiting these risks is an extremely important area of attention for the management teams. The companies should remain constantly alert to environmental aspects relevant to their business operations and to the prevention of calamities. Environmental risk assessments are, therefore, carried out at the production facilities on a regular basis and, if necessary, lead to the immediate implementation of measures and procedures to reduce the risks still further. The investigation focuses not only on complying with environmental legislation, but also on

In 2017 we put considerable effort into product development with a focus on cost reduction and increasing our market share.

assessing which preventative measures can be implemented. The effectiveness of the implemented measures is checked on an on-going basis in order to limit risks as far as possible. Increasingly the processes are also checked for possibilities to improve the sustainability of our products and/or production processes. In addition to preventive measures, Hydratec's policy also focuses on reducing its overall environmental-impact and actively seeks possibilities to reduce the CO₂ footprint of its operating companies. In 2017 solar panels were installed at one of the companies and now generate a portion of the energy used. This aspect continues to increase in importance because our clients are also specifying increasingly stringent requirements in this context. We will continue keeping a sharp eye out for developments that could lead to further reductions in environmental impact.

Workforce

Hydratec sets great store by having a diverse workforce because we are convinced this stimulates innovation and, in general, means decisions are based more on facts. Diversity is the result of various differences including in education, background, age, gender and ethnicity. It is one of the reasons why we strive for a balance between men and women within the companies, even though this isn't easy for an organisation with a clear technical orientation. At the end of 2017 Hydratec's Management Board comprised two members, both male, and its Supervisory Board comprised three members - one female and two male. The workforce within the companies is 13% female.

At the end of 2017 the total workforce (FTEs) was 1,036, of which 75% had a contract with one of the operating

companies. The total number of employees on the Group's own payroll at the end of 2017 was 776 FTEs (end of 2016: 797 FTEs) of which 293 FTEs (end of 2016: 322 FTEs) worked abroad, including 134 at the Helvoet facility in India and 121 in Belgium.

Human rights, bribery and sanctions legislation

Hydratec believes that international trade leads to stability and peace through economic growth, opportunities and mutual understanding. We are aware of the obligation to trade within the Laws and regulations of the countries in which we are active. Relations with employees, suppliers and clients are based on trust and integrity.

Hydratec is committed to respecting the principle of human rights and in countries in which human rights are not so firmly embedded in local legislation, the Code of Conduct adhered to within the Group companies is applicable. Employees are paid a fair salary, are provided a safe working environment and are offered a good balance between working and leisure time. Men and women are paid equally and employees have the right to join a trade union. Hydratec does not tolerate forced or child labour.

Hydratec's employees commit themselves to adhering to the Company's Code of Conduct and are aware that the giving or receiving of gifts that could influence

decision-making is prohibited. The consequences of corruption and bribery could include damage to the reputation of the Group as a whole. In certain countries there is also a risk that a case of corruption or bribery would severely jeopardise the possibilities for doing business. Based on the available information there were no accusations of corruption or bribery during 2017.

RISK MANAGEMENT

General

Hydratec stimulates local entrepreneurship within its operating companies and realises that, as a consequence, a balance must be found between this entrepreneurship and the management of risks. A good risk management system is, therefore, extremely important. Making risks visible enables measures to manage them to be implemented. The intention is not to avoid all risks - taking risks is an intrinsic aspect of doing business. Whether the risk assessment system is functioning adequately or requires amendment is assessed during the annual strategic evaluation with the Supervisory Board. The approach is aimed at preventing surprises. What is clear is that no risk management system, however professional, can guarantee a company's targets are achieved or totally prevent major mistakes being made, fraudulent activities being carried out or, for example, non-compliance with (local) legislation. Within Hydratec risks are categorised as strategic, operational or financial.

Hydratec sets great store by having a diverse workforce.

Strategic risks

Growth target

The steady growth of its revenue and results is at the core of Hydratec's strategy. We endeavour to achieve this primarily through the organic growth of every one of the companies. This can be either through expanding market positions or by broadening the product offering. We believe that continuous growth is necessary for healthy business development and we stimulate our companies to improve their competitive positions by achieving product improvements and innovations with the related risks. These product developments are based primarily on identified concrete requirements of clients and potential clients.

Hydratec also endeavours to strengthen its companies' market positions, gain synergy advantages and gradually expand its revenue and geographical area of operations through acquisitions. Hydratec also remains alert for opportunities in industrial sectors in which it is not yet active. This can mean that Hydratec acquires activities in new markets in which it does not have a proven track record of experience and/or expertise. This growth strategy may require investments that cannot always be financed from the Company's resources and available credit facilities and may necessitate calling on the capital market and/or shareholders. Maintaining a strong solvency ratio is, therefore, an important basis for Hydratec's continuity.

Market positioning

Agri & Food System's projects are sold all over the world. The revenue from these projects can change substantially from one year to another per client and per country. The top-10 countries are responsible for 73% of Agri & Food Systems' total revenue. In 2017 the United States once again generated the largest share of the revenue (16%). The United Kingdom, where there is considerable uncertainty regarding Brexit, also generated a significant portion of the revenue (12%). In 2017 each of the remaining countries generated less than 10% of the revenue. The share of revenue can fluctuate substantially per country per year. Large project orders can also create major fluctuations in the Agri & Food Systems companies' yearly revenue and results. Even after a contract for a project has been signed the client can postpone the actual deliveries for a considerable length of time. Because the major portion of the production of the components for the machines is contracted-out to sub-contractors, this risk is, to a degree, shifted to these sub-contractors.

In many cases the relationships between Plastics Components and clients are of a long-term nature. The top-10 clients account for around 51% of Plastic Components' total revenue. The largest client accounts for less than 10% of revenue. If a large client terminates its relationship with the Company the loss of revenue cannot be offset immediately. But in view of the fact that such client relationships involve a wide range of products, should a client relationship be terminated the actual loss of revenue would also be gradual. The Hydratec companies are active worldwide and recognise the risks that can be coupled with sanctioned countries, people and products. Changes to the relevant regulations are followed very closely and form a component of the sales process.

Every year the strategic market positions and options are evaluated per company, in part in the light of the achieved results. This evaluation forms the basis for decisions regarding long-term investments in and the priorities for product-market development.

Operational risks

Product liability and manufacturing risks

Within the Hydratec companies many different production processes are carried out. As a result there is a risk of human error and incidental manufacturing faults that could lead to a loss of product quality and the disruption of the manufacturing process. The Hydratec companies also carry out a considerable amount of product development, which means there is a risk of design faults. This can lead to relatively high costs for clients, who will endeavour to be recompensed by their supplier. All the companies implement strict quality standards and carry out Risk Inventories and Evaluations (RIE). All the companies are ISO certificated or comply with an ISO-based quality system. Although all the companies are insured against product liability this does not guarantee cover in every case. At all the companies manufacture sometimes involves the use of a specific machine, the breakdown of this machine would cause production risks.

Suppliers

The Agri & Food Systems companies use a large mix of suppliers: Eastern European companies for the more mass-produced products and companies in the region for specific components and smaller quantities. The largest supplier (< 10% of the purchase volume) is based in the Czech Republic.

The Plastic Components companies purchase raw materials that are used on a global scale by many plastic companies. Although only a relatively few extremely large global suppliers operate in these raw materials production markets, the (lack of) availability of these raw materials does not constitute a real risk.

Environmental risks

The manufacturing and processing of plastic products goes hand-in-hand with environmental risks. Limiting these risks is a key issue for the Hydratec companies which must, at all times, focus on the environmental aspects relevant to their operations and the prevention of calamities. The current situation and the related (financial) risks at the production facilities are evaluated and recorded on a regular basis. The aim of the evaluations is not only to ensure compliance with environmental legislation, but also to assess what preventative measures can be implemented. The recognised environmental risks are, when necessary, translated into concrete action plans. The effectiveness of the implemented measures is checked continuously in order to limit the risks as far as possible. In addition to the preventative measures, Hydratec's policy is also aimed at reducing the total environmental impact. Developments that can lead to improved environmental care will continue to be closely monitored in the future.

Automation

Hydratec strives to achieve production efficiency and logistics advantages, for example through far-reaching automation. Its success is increasingly dependent on the timely and correct implementation and extension and/or good functioning of automation systems. This makes the organisation very dependent on the proper functioning of these systems. ICT systems that do not function properly, or do not function at all, could threaten the continuity of business operations within a relatively short space of time. All the companies follow stringent procedures that ensure that, in the case of a system fault or failure, they have back-up systems and can access the most recent data.

Financial risks

Hydratec's annual accounts have been prepared in accordance with IFRS-EU. The Notes to the consolidated annual accounts on pages 45 to 70 of the official Dutch 2017 annual report describe a number of financial risks to which Hydratec is exposed. These risks include capital, market, raw materials prices, currency, interest rate, solvency and credit risks. The annual accounts section also includes a sensitivity analysis related to several of these risk factors. These risks are not exceptional and, in our opinion, go hand-in-hand with the nature of our business activities

CORPORATE GOVERNANCE STATEMENT

An ISO 26.000-based Code of Conduct in respect of issues such as good management, human rights, working conditions, business integrity and environment protection has been implemented in the various Hydratec companies.

Hydratec-companies are globally active.

The Supervisory Board and Management Board endorse the principles of Corporate Governance and Hydratec Industries NV complies with the provisions laid down in the Dutch Corporate Governance Code. Key concepts such as transparency and accountability to the shareholders about our policy are important starting points. We do, however, deem some of the guidelines to be irrelevant for a SmallCap company. For example, in view of the Company's size and the fact that its Supervisory Board has less than four members, no committees have been formed. The points on which Hydratec deviates from the Code and the reasons why are listed, per section of the Code, on the Corporate Governance page of the Company's website.

The reporting systems used within the Hydratec companies and the regular reports to the Management Board are of major importance. A Planning & Control Cycle has been defined for these reports and an accounting manual produced. Revenue and order inflow are reported weekly.

Monthly reports include the most important financial and operational components, such as revenue, gross margin, operating costs, operating profits, orders received, working capital components, personnel summaries and investments. These reports form the basis for monthly meetings between the Management Board and the operating company managements as well as for the consolidated summaries that are also evaluated by the Supervisory Board. The local managements also prepare quarterly reports which include an explanation of organisational developments as well as of market and product developments.

Strategy meetings take place each year in each company in the presence of the Supervisory Board. During these

meetings the strategic market positions and options are evaluated, in part in the light of the achieved results, and the different strategic, operating and financial risks are discussed along with any major shortcomings or changes in the internal risk management and control systems.

Hydratec operates under Dutch law under a so called 'structural regime' due to which only ordinary shares has been issued. No special control rights are linked to these shares and Hydratec does not implement any special hostile take-over protection measures. At least once a year a General Meeting of Shareholders is organised during which all the resolutions are approved on the basis of the 'one share, one vote' principle.

Shareholders who, either individually or jointly, hold at least 3% of the issued shares are entitled to ask the Management Board or Supervisory Board to add particular topics to the agenda. Important Board resolutions that could result in a change to the Company's identity or character must be approved by the General Meeting of Shareholders. The Company's Articles of Association are published on the Company's website as are the main tasks and authorities of the General Meeting of Shareholders as well as of the Supervisory Board and the Management Board.

The Articles of Association (published on the website) also include the regulations in respect of the appointment and dismissal of Management Board and Supervisory Board members and changes to the Articles of Association. Shareholders holding an interest of over 3%, and must therefore be disclosed to comply with the Disclosure of Major Holdings Act, are listed on page 18.

The order intake is encouraging and the order book is well filled.

IN CONCLUSION

In control statement

Hydratec's Management Board is of the opinion that the risk management and control systems provide a reasonable level of assurance that the financial reporting does not contain any material misstatements. These risk management and control systems functioned properly during the year under review and there are no indications that they will not function properly during the current year. The process of refining the management and control systems has been, and will continue to be, evaluated on a continuous basis.

Hydratec's Management Board declares that, to the best of its knowledge, the 2017 annual accounts provide a fair and accurate picture of the assets, liabilities, financial position and profits of the Company and the companies jointly included in the consolidated annual accounts. The annual report provides a fair and accurate picture of the situation as at the balance sheet date and the business development during the financial year of the Company and the affiliated companies for which the data is included in the annual accounts. The annual report describes the actual risks with which the Company is confronted.

Outlook and expectations for 2018

The order intake is encouraging and the order book is well filled. As always, the demand for our products will be affected by macro-economic developments, such as volatile currency exchange rates and Brexit. We deem it too early to make a definite statement regarding the possible result for 2018.

A word of thanks

We would like to thank all our colleagues for their considerable efforts during the past year. Their commitment enables us to achieve our goals. We would also like to thank our clients, partners and shareholders for their trust.

Amersfoort, 5 april 2018

Management Board

B.F. Aangenendt CEO

M.C. van den Burg CFO



SUMMARISED ANNUAL ACCOUNTS 2017

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

x € 1,000	2017	2016
Net revenue	169,323	162,374
Material usage	79,773	77,226
Gross margin	<u>89,550</u>	<u>85,148</u>
Wages and salaries	35,282	35,447
Social security premiums and pensions	8,965	8,870
Depreciation and amortisation of non-current assets	5,456	5,542
Other operating costs	<u>31,536</u>	<u>27,919</u>
	81,239	77,778
Extraordinary income and expenses		<u>801</u>
Operating profit	8,311	8,171
Financial income and expenses	<u>1,003</u>	<u>1,269</u>
Result before taxes	7,308	6,902
Income tax	195	1,031
Result from investments in associates	<u>16</u>	<u>11</u>
Net result	<u>7,129</u>	<u>5,882</u>
Net result attributable to shareholders	<u>7,129</u>	<u>5,882</u>
Weighted average number of shares	1,273,960	1,246,886
Earnings per ordinary share (in euro)	5.60	4.72
Diluted earnings per ordinary share (in euro)	<u>5.59</u>	<u>4.71</u>

CONSOLIDATED SUMMARY OF COMPREHENSIVE INCOME

x € 1,000	2017	2016
Net result	7,129	5,882
Components that may be recognised in the result in the future		
Result of hedge on financial derivatives	186	- 120
Currency translation differences	<u>- 266</u>	<u>- 423</u>
Total other comprehensive income	<u>- 80</u>	<u>- 543</u>
Total comprehensive income	<u>7,049</u>	<u>5,339</u>
Total comprehensive income attributable to shareholders	<u>7,049</u>	<u>5,339</u>

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER before appropriation of result

x € 1,000	2017	2016
ASSETS		
Intangible assets	17,882	17,570
Tangible assets	46,411	44,279
Investments in associates	271	295
Deferred tax asset	1,260	308
Other financial non-current assets	211	370
Total non-current assets	<u>66,035</u>	<u>62,822</u>
Inventories	23,876	20,137
Trade receivables	30,344	26,862
Current tax assets	647	597
Other taxes and social security premiums	2,033	1,642
Other receivables	7,614	3,529
Accrued assets	511	960
Cash and cash equivalents	7,222	1,914
Total current assets	<u>72,247</u>	<u>55,641</u>
Total assets	<u>138,282</u>	<u>118,463</u>

x € 1,000

	2017	2016
LIABILITIES		
Shareholders' equity attributable to Hydratec shareholders	53,399	48,390
Shareholders' equity	<u>53,399</u>	<u>48,390</u>
Personnel-related provisions	1,358	1,348
Other provisions	3,117	4,292
Deferred tax liabilities	1,250	1,286
Borrowings	13,629	13,056
Other financial instruments	463	604
Total provisions and non-current liabilities	<u>19,817</u>	<u>20,586</u>
Trade payables	16,444	18,031
Current tax liabilities	818	704
Other taxes and social security premiums	2,321	2,165
Owed to banks	3,088	2,526
Other debts and accrued liabilities	42,395	26,061
Total current liabilities	<u>65,066</u>	<u>49,487</u>
Total liabilities	<u>138,282</u>	<u>118,463</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

x € 1,000	Issued capital	Agio	Translation reserve	Hedge reserve	Other reserves	Un- distributed result	Share- holders equity
Book value as at 1 January 2016	550	3,418	60	– 484	28,463	28,463	42,791
Shareholder related changes:							
• Dividend distribution 2015					– 1,674	– 1,674	– 1,674
• Share issue Remaining payment acquisition of Lias Industries	22	1,684					1,706
• Share issue Participation Plan	1	75					76
Other changes:							
• Result appropriation 2015					10,784	10,784	
Unrealised results							
Value difference interest rate swaps				– 120			– 120
Realised results							
Result 2016							5,882
Currency translation differences foreign participations			– 423		152	152	– 271
Book value as at 31 December 2016	573	5,177	– 363	– 604	37,725	37,725	48,390
Shareholder related changes:							
• Dividend distribution 2016					– 2,163		– 2,163
• Share issue Participation Plan	1	123					124
Other changes:							
• Result appropriation 2016					5,882	–5,882	
Unrealised results							
Value difference interest rate swaps				186			186
Realised results							
Result 2017						7,129	7,129
Currency translation differences foreign participations			– 267				– 267
Book value as at 31 December 2017	574	5,300	– 630	– 418	41,444	7,129	53,399

CONSOLIDATED CASH FLOW STATEMENT

x € 1,000

	2017	2016
Result from normal business operations before taxes	7,308	6,902
Adjusted for:		
• Depreciation and amortisation	5,456	5,542
• Impairment / profit from advantageous sale of companies	0	- 101
Financial income and expenses	1,003	1,269
Changes in provisions	- 1,149	798
Changes in working capital:		
• Inventories	- 3,739	- 1,106
• Current receivables	- 7,499	- 3,050
• Current liabilities	14,793	- 2,356
	3,555	- 6,512
Financial income and expenses paid	- 970	- 1,437
Profit tax paid	- 1,245	- 701
Cash flow from operating activities	13,962	5,760
Investment in intangible assets	- 703	- 103
Investments in tangible assets	- 7,319	- 8,138
Investments in financial assets	22	156
Cash flow from investment activities	- 8,000	- 8,085
Dividend paid to Hydratec shareholders	- 2,163	- 1,674
Repayment of borrowings	- 1,619	- 1,026
Proceeds from borrowings	3,448	2,176
Cash flow from financing activities	- 334	- 524

x € 1,000

	2017	2016
Net cash flow	5,628	– 2,849
Currency translation differences	– 155	– 260
Change in cash and cash equivalents	<u>5,473</u>	<u>– 3,109</u>
Cash and cash equivalents as at 1 January	1,350	4,459
Cash and cash equivalents as at 31 December	<u>6,823</u>	<u>1,350</u>
Cash and cash equivalents		
Cash and at bank	1,914	8,245
Current account bank	– 564	– 3,786
Total 1 January	<u>1,350</u>	<u>4,459</u>
Cash and at bank	7,222	1,914
Current account bank	– 399	– 564
Total 31 December	<u>6,823</u>	<u>1,350</u>

INDEPENDENT AUDITOR'S REPORT

With regard to the independent auditor's report we refer to page 78 to 83 of the official Dutch 2017 annual report, which is available on www.hydratec.nl/investor-relations.

FIVE YEAR SUMMARY

Amounts in thousands of euro unless stated otherwise

	2017	2016	2015	2014	2013
Profit and loss account					
Net revenue	169,323	162,374	113,437	91,598	110,064
Operating profit	8,311	8,171	7,830	6,224	6,958
Net profit	7,129	5,882	6,876	3,566	4,178
Net profit to be allocated to shareholders	7,129	5,882	10,784	6,873	4,178
Cash flow					
Cash flow from operating activities	13,962	5,760	7,550	9,383	4,207
Cash flow from investing activities	- 8,000	- 8,085	- 3,743	7,868	- 5,489
Cash flow from financing activities	- 334	- 524	- 9,455	- 3,718	- 2,255
Net cash flow	5,628	- 2,849	- 5,648	13,532	- 3,537
Balance sheet					
Equity attributable to Hydratec shareholders	53,399	48,390	42,791	35,828	30,420
Group equity	53,399	48,390	42,791	38,280	32,507
Balance sheet total	138,282	118,463	120,178	77,725	83,995

Amounts in thousands of euro unless stated otherwise

	2017	2016	2015	2014	2013
Key ratios					
Operating profit as a % of revenue	4.9%	5.0%	6.9%	6.8%	6.3%
Return on invested capital ¹	11.8%	9.5%	5.3%	11.9%	9.9%
Return on shareholders' equity ²	14.0%	11.7%	7.9%	12.3%	14.2%
Solvency ³	38.6%	40.8%	35.6%	49.3%	38.7%
Information per ordinary share (in euro)					
Operating profit ⁴	6.52	6.55	6.41	5.09	5.26
Equity attributable to Hydratec shareholders	41.92	38.81	35.01	29.32	24.89
Profit per share continued activities	5.60	4.72	5.21	2.91	3.42
Profit per share including discontinued activities	5.60	4.72	8.82	5.62	3.42
Profit per share excluding one-time income	5.60	4.27	2.52	3.34	3.42
Dividend	2.25	1.70	1.37	1.37	1.37
Price at year end	55.03	44.30	32.00	31.65	22.73
Lowest price	44.06	30.35	30.77	24.30	21.00
Highest price	64.00	48.00	36.60	34.95	26.00
Other information					
Average number of employees	787	788	519	318	469
Net revenue per employee	215.1	206.1	218.6	288.0	234.7
Salary costs per employee	56.2	56.3	57.0	58.4	51.7

¹ Net result excluding one-time income + interest expense as a % of the invested capital (total assets minus cash and cash equivalents minus current non-interest-bearing liabilities).

² Net result excluding one-time income as a % of the average shareholders' equity attributable to Hydratec's shareholders.

³ Shareholders' equity as a % of the balance sheet total.

⁴ Continued activities.

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