

# ANNUAL REPORT

## 2018

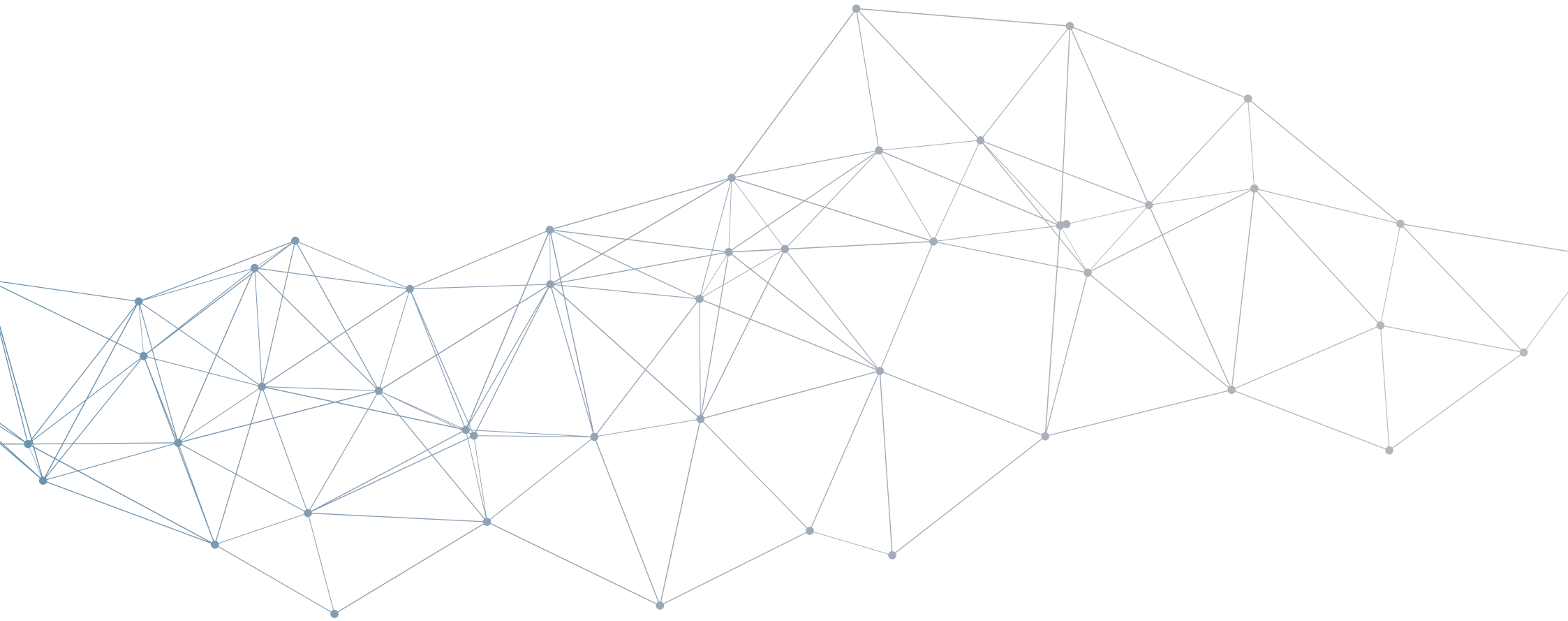


Smart Technologies <

SMART TECHNOLOGIES  
THE HEART OF  
OUR INNOVATIONS

# ANNUAL REPORT 2018

## TKH GROUP



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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.

# TKH GROUP

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TKH focuses within the three business segments on seven vertical growth markets for above average growth and value creation, linked to a strong growth trend and the highest possible ROCE and ROS.

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Technology firm TKH Group N.V. (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, mission critical communication, connectivity and smart manufacturing- are linked into total systems and solutions in our three Solutions segments. Within these business segments there is a strong focus on seven vertical growth markets -fibre optic networks, parking, care, tunnel & infra, marine & offshore, machine vision and tire building industry- where the core technologies are positioned as one-stop-shop for our customers. TKH strives for far-reaching synergy and cooperation between its subsidiaries.

TKH has an in-depth knowledge of processes and technologies, and has an understanding of its customers' markets and processes. By making optimal use of our specialists' expertise in the fields of research and development, engineering, marketing, process development, project management, assembly and logistics, we are able to offer our customers tailored solutions.

TKH strives to achieve strong market positions based on its innovative core technologies and services. TKH and its subsidiaries operate on a global scale. Growth is concentrated in Europe, North America and Asia. With 6,533 employees (FTEs), TKH achieved a turnover of € 1.6 billion in 2018.

# HIGHLIGHTS 2018

In 2018, our strategy and focus led to the previously forecasted further growth in turnover and profit.

With a strong investment discipline, our market position has improved again in 2018.

## TURNOVER

Turnover increases by 9.8% to € 1,630.8 million, organic growth of 9.4%.

1,630.8 € MLN

## TURNOVER GROWTH

High turnover growth of 12.0% in vertical growth markets.

+12.0%

## STRATEGY

Strategy execution on track; strong investment discipline led to improved market position.

## INNOVATIONS

Innovations account for 20.8% of turnover and provides strong foundation for the future.

20.8%

## EBITA

Increase of 23.5% in EBITA before one-off expenses – growth in all segments.

+23.5%

## NET PROFIT

Net profit before amortization and one-off income and expenses attributable to shareholders up 26.7% at € 121.1 million, in line with the previously communicated bandwidth (€ 116 million - € 122 million).

121.1 € MLN

## DIVIDEND PROPOSAL

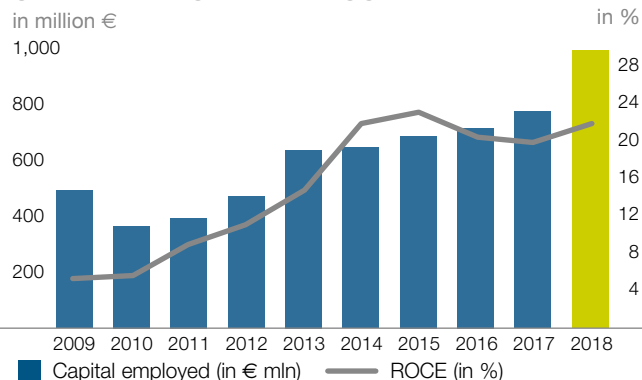
Dividend proposal: € 1.40 per (depository receipt of an) ordinary share.

1.40 €

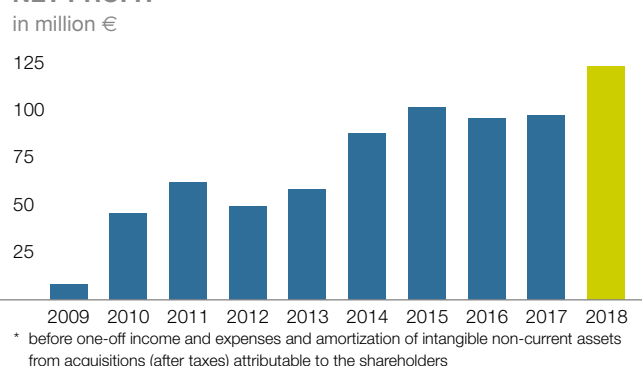
## ACQUISITION

Successful closing acquisition of Lakesight Technologies, strengthening position in vertical growth markets Machine Vision and Tunnel & Infra.

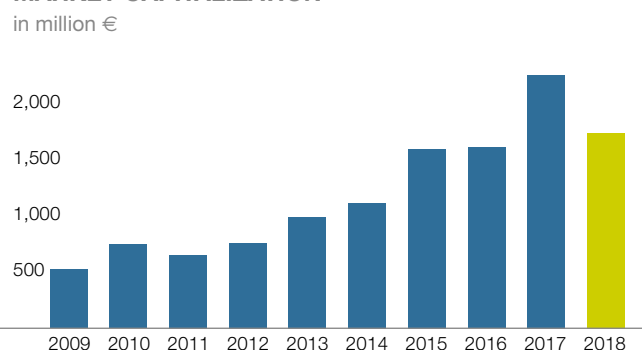
## CAPITAL EMPLOYED AND ROCE



## NET PROFIT \*



## MARKET CAPITALIZATION



# KEY FIGURES

	2018	2017 <sup>1</sup>
<b>Operations</b> (in € million)		
Turnover	1,631	1,485
EBITA <sup>2</sup>	185	149
Net result	109	88
Net profit before amortization and one-off income and expenses attributable to shareholders <sup>3</sup>	121	96
Cash flow from operating activities	127	160
Net investments <sup>4</sup>	42	41
Depreciation of tangible non-current assets	28	24
<b>Balance sheet</b> (in € million)		
Shareholders' equity <sup>5</sup>	648	603
Liabilities	879	679
Non-current assets	821	649
Current assets	706	633
<b>Ratios</b> (in %)		
Shareholders' equity/Total assets %	42.4	47.0
Shareholders' equity/Non-current assets	78.9	92.8
EBITA/Turnover (ROS)	11.3	10.1
EBITA/Average capital employed (ROCE)	21.3	19.7
Net debt/EBITDA ratio	1.5	0.9
Net result before amortization and one-off income and expenses/Turnover	7.4	6.5
Net result before amortization and one-off income and expenses/Group equity <sup>3,5</sup>	18.7	16.1
<b>Employees</b> (in FTE)		
Number at year-end	6,533	5,900
In euros (unless otherwise stated)		
<b>per ordinary share of € 0.25</b>		
Shareholders' equity <sup>6</sup>	15.42	14.34
Net result <sup>7</sup>	2.58	2.05
Net profit before amortization and one-off income and expenses attributable to shareholders <sup>3,7</sup>	2.88	2.27
Cash flow from operating activities	3.17	3.80
Dividend	1.40	1.20
Highest share price during year under review	60.15	58.68
Lowest share price during year under review	38.36	36.45
Share price at year-end	40.70	52.93
Ordinary shares outstanding at year-end (x 1,000)	42,003	42,045

1 The comparative figures for 2017 have been restated due to the retrospective application of IFRS 15 Revenue from contracts with customers.

2 EBITA before one-off income and expenses.

3 Amortization of intangible non-current assets related to acquisitions (after tax).

4 In tangible non-current assets.

5 Including non-controlling interests.

6 Based on outstanding ordinary shares held by third parties at 31 December.

7 Based on weighted average number of outstanding shares at third parties.



# MAKING BALANCED DECISIONS

The strategy of TKH progressed well in 2018, in line with our plans. We fulfilled the commitment we made in 2016 regarding the expected materialization of both revenue and profit growth in 2018. Nevertheless, the year was not without its challenges, especially those linked to our high level of innovation. By not avoiding these challenges and, above all, ensuring that we employ enough of the right talented people, we have achieved great successes in our technological development. Moreover, the challenges in our innovations are inextricably linked to the value creation of TKH. This has given us above-average distinctiveness and a unique position in the markets in which we operate.





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## In the coming year, we will continue to build on our existing strong strategic foundations.

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We can build on strong opportunities that, aside from economic growth, offer us good possibilities for further growth in market share, as was also demonstrated in 2018. The scale we have developed gives TKH more and more power to create efficiency and returns through investment in R&D, as well as in production capacity and market positioning. This enables us to continuously improve both operating result and return on invested capital in line with the objectives we have set for this.

Our people are highly motivated to achieve their objectives. This, combined with good risk assessments and the right entrepreneurship, enables us to make balanced decisions. These decisions lead to the performance we need to achieve healthy revenue and profit growth and their associated long-term value creation, with the ultimate goal of satisfied stakeholders.

Our focus on the four core technologies and the seven vertical growth markets has important added value in achieving our objectives. This has accelerated organic growth of both turnover and profit. In addition, the innovations in core technologies for growth markets have also paid off in relation to growth outside the seven vertical growth markets, leading to high growth in the past year. In the section of this annual report, we look at these innovations within the four core technologies and how they have been successfully positioned in our growth markets.

In the coming year, we will continue to build on our existing strong strategic foundations. We will continue to focus on creating a healthy return on all the investments we have made in our innovations and building blocks for growth in recent years. Shorter-term returns have been given a slightly higher priority than in the past by restricting costs in relation to benefits.

We are seeing an increasing shortage of qualified technical people. Being a good employer is very important to us. We want to ensure that we are an attractive employer that is able to fill their vacancies on time and with the right job profiles. This will become more challenging in the coming years due to the expected increase in scarcity. We will continue to give a high priority to preparing ourselves. The innovative and entrepreneurial culture at TKH will provide a good starting position for this.

Corporate social responsibility (CSR) is integrated into the TKH strategy and thus embedded in the organization and corporate culture. We work intensively on sustainability goals with our stakeholders in order to make a joint social contribution. TKH has made a valuable addition to its CSR policy through the Sustainable Development Goals (SDGs). Because of our many years of focusing on sustainability, we have already launched many initiatives that have strong common ground with the sustainability goals defined by the United Nations. For us, the SDGs provide additional tools for embedding sustainable developments more firmly in cooperation with stakeholders and other chain partners.

We would like to thank all our employees for their great commitment, enthusiasm and dedication to the further development of TKH. We are grateful to our customers, business partners, Supervisory Board, shareholders and holders of depositary receipts of shares for the trust they place in TKH and the support they give us to further develop the company and achieve our ambitions.

On behalf of the Executive Board  
Alexander van der Lof, *chairman*

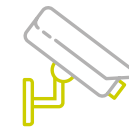
# 4 CORE TECHNOLOGIES

The four TKH core technologies –vision & security, mission critical communication, connectivity and smart manufacturing– are linked to each other to create total systems and solutions. We focus mainly on the development of our own advanced technologies and enter into partnerships with suppliers of specific technology components or solutions. Thanks to our thorough knowledge of processes and techniques, and our understanding of markets, we are able to employ our technologies in a focused manner which clearly offers our customers added value. Because the core technologies can be used for multiple applications, a scale size is created that makes it possible to be distinctive. Software plays an increasingly important role as part of our core technologies, allowing us to integrate them appropriately and to ensure that they are smart in relation to analysis and control. With our core technologies, we contribute to a safer environment and ensure that our customers' processes are efficient and reliable.

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**We contribute with our technology to a more secure environment and ensure for more efficient processes for our customers.**

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## VISION & SECURITY

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. Amongst other things, vision technology is employed for inspections and for quality, product and process control. Within TKH, vision technology plays an important role in medical solutions, industrial automation (tire building, automotive sector, robotics and logistics) and in scientific research. Our security technology makes it possible to control and monitor urban environments in relation to safety, comfort and efficiency, and includes alarm and mission critical communication systems, access, registration and evacuation systems. For the mobility market, cameras and solutions are delivered for intelligent traffic systems.



## MISSION CRITICAL COMMUNICATION

Our communication technology focuses on image transmission, speaking and listening connections, guiding and lighting systems, security and control. To ensure security in buildings our communication technology is often used in combination with our vision and security technology. Through our technologies, we promote efficiency, safety and security in tunnels, car parks, outpatient and inpatient care, airports, football stadiums, schools and financial institutions.



## CONNECTIVITY

With our connectivity technology we focus on complete portfolio connectivity solutions for energy distribution and electro technical applications in the construction and infra sectors, as well as data optical fibre systems for data and communications networks. Custom-made specialty cables, connectors and connectivity systems for the most diverse applications in high-tech environments such as the industrial, marine & offshore and medical sectors. Our advanced connectivity technology for contactless energy and data distribution for airfield ground lighting systems is an innovative technology within airfields that leads to a breakthrough in the field of safety and reduction of operating expenses.



## SMART MANUFACTURING

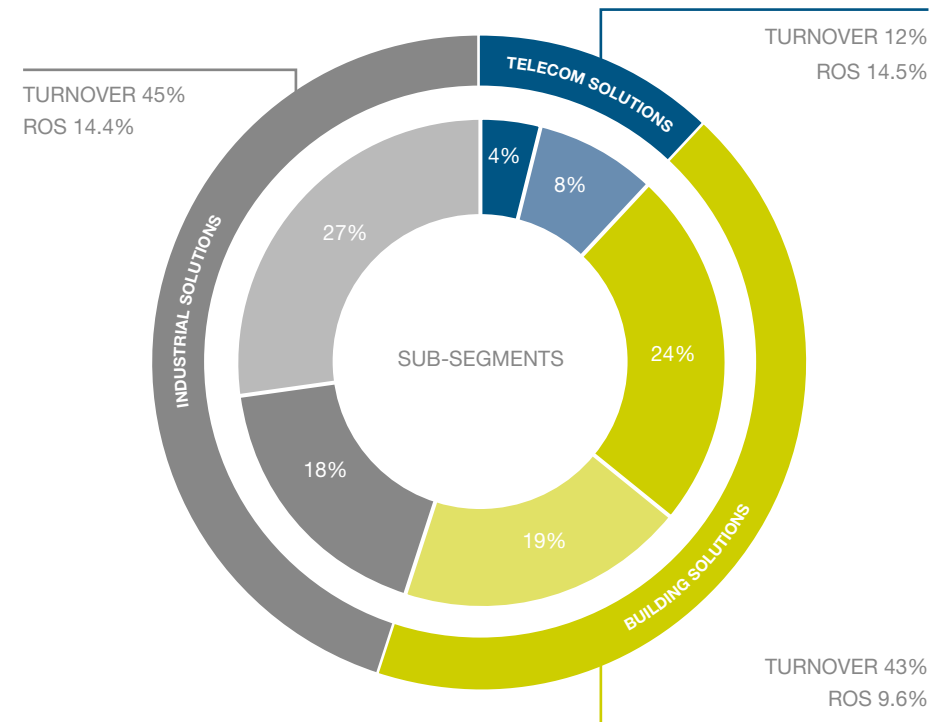
TKH uses its knowledge of the automation of production processes for controlling and monitoring industrial processes and also in comprehensive manufacturing systems for the production of car and truck tires, and the tin processing and care industries. Engineering and assembly of systems, control and analysis software, as well as connectivity and vision technology, are the basic building blocks for the distinctive manufacturing systems supplied by TKH. Our technology improve the reliability and flexibility of manufacturing systems, allowing us to respond to the requirements of a number of specialized industrial sectors, such as the tire building, robotics, medical and machine building industries.

# 3 BUSINESS SEGMENTS

TKH focuses with its segmentation on Telecom Solutions, Building Solutions and Industrial Solutions. The TKH core technologies are linked to each other to complete systems in our three business segments. Within those business segments we focus mainly on seven defined vertical growth markets within which our specialist knowledge and expertise can be put to even better use and it is possible to achieve above-average growth and profit.

Within the three business segments, our specialist knowledge and skills are even more effective so that above-average growth and returns can be achieved

## TURNOVER PER BUSINESS SEGMENT



### TELECOM SOLUTIONS

- Indoor telecom & copper networks
- Fibre network systems

### BUILDING SOLUTIONS

- Vision & security systems
- Connectivity systems

### INDUSTRIAL SOLUTIONS

- Connectivity systems
- Manufacturing systems

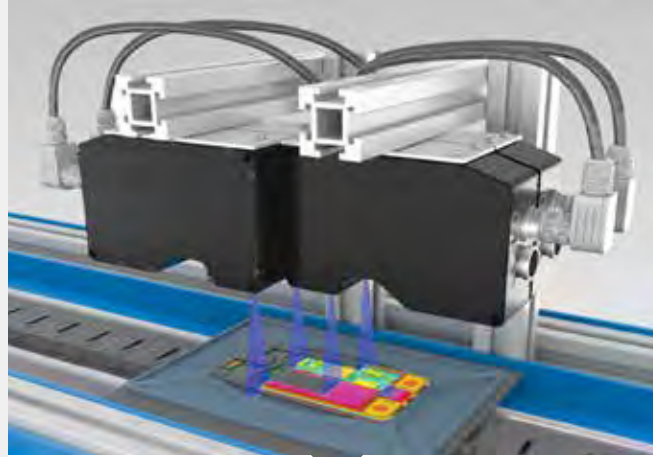


## TELECOM SOLUTIONS

The core technologies vision & security, mission critical communication and connectivity are represented in Telecom Solutions. TKH develops, produces and supplies systems ranging from basic outdoor infrastructure for telecom and CATV networks through to indoor home networking applications. The focus is on supplying systems accompanied by warranties that relieve our customers from any concern. 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.

### SUB-SEGMENTS TELECOM SOLUTIONS

- Indoor telecom & copper networks
- Fibre network systems



## BUILDING SOLUTIONS

Within Building Solutions our core technologies of vision & security, mission critical communication and connectivity are combined with each other to produce comprehensive solutions for security and communications applications within and around buildings, in medical applications and also for inspections, quality assurance, and product and process control. In addition, we focus on efficiency solutions to reduce lead times for the construction of installations within buildings, as well as on intelligent video, mission critical communication, evacuation, access (control) and registration systems for a number of specific sectors, including care, parking, marine, offshore, tunnels and airports.

### SUB-SEGMENTS BUILDING SOLUTIONS

- Vision & security systems
- Connectivity systems



## INDUSTRIAL SOLUTIONS

The core technologies vision & security, connectivity and smart manufacturing are represented in Industrial Solutions. TKH 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. TKH's know-how in the automation of production processes and improvements in the reliability of manufacturing systems gives the company the differentiating potential to respond to the increasing desire to outsource the construction of manufacturing systems or modules in a number of specialized industrial sectors, such as tire building, robotics, and the medical and machine building industries.

### SUB-SEGMENTS INDUSTRIAL SOLUTIONS

- Connectivity systems
- Manufacturing systems



# 7 VERTICAL GROWTH MARKETS

TKH focuses on seven defined vertical growth markets. These are markets in which we can achieve above-average growth. Thanks to close contact with our customers, we know these markets well, we are familiar with what is at stake and what their requirements 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 million to € 500 million in our seven vertical growth markets.



## FIBRE OPTIC NETWORKS

TKH develops, produces and supplies comprehensive fibre optic networks which, in addition to optical fibre cables, also include connectors, pipes, sleeves, fibre management systems, security and robotic systems and other accessories. Everything can be installed plug-and-play so projects can be completed efficiently and on time. When required, we help our customers by providing them with training and support during the engineering process and in relation to the installation of networks and maintenance.



## CARE

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. Security and alarms can be individually geared to the clients or resident's health care needs. TKH also supplies total solutions for health care and nursing homes, care for the disabled, mental health care and hospitals. For the pharmaceutical industry TKH develops fully automated logistics systems for medicine packaging and distribution.



## TUNNEL & INFRA

TKH supplies the tunnel & infra sectors with innovative communications and security solutions, including integrated imaging, intercom, public address and camera systems, as well as fire-resistant cable systems, advanced connectivity technology for contactless energy and data transmission and energy cables for energy networks that respond to the demand for, among others, alternative energy supplies. Our solutions satisfy strict safety requirements making it possible to open tunnels, roads and runways safely and punctually. For the mobility market, cameras and solutions are supplied in the field of intelligent traffic systems that are crucial for safety applications.



## PARKING

TKH develops and manufactures innovative parking systems. They range from self-developed video analytics technology designed to monitor parking bays and streamlining traffic in parking garages to integrated access control, intercom and camera systems. Parking garages can be managed from any place at any time. We provide professional project management, support and advice in the design and execution of parking projects.

We expect to achieve above-average growth in the seven vertical growth markets that we have defined, either because investments pay for themselves very quickly or because investments in that market are really necessary.




## MARINE & OFFSHORE

TKH supplies the marine and offshore industries with innovative subsea cable systems, as well as a comprehensive connectivity package specific for those industries. In addition, we supply integrated security and communications systems for use on ships and platforms. Many of our solutions are geared towards security, safety and efficiency with a favourable return on investment for our customers.




## MACHINE VISION

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. Vision technology is used to monitor, control or adjust industrial processes. We supply amongst others the robotics, mechanical engineering, consumer electronics, medical and automotive industries.




## TIRE BUILDING INDUSTRY

With decades of experience, TKH has developed and refined the production technology for tire building systems which is required to produce superior tires for cars and trucks. TKH develops, manufactures, supplies and installs innovative tire building systems which make it possible to manufacture tires with specific characteristics in a highly efficient way.

### TURNOVER(GROWTH) VERTICAL GROWTH MARKETS

in millions €

#### FIBRE OPTIC NETWORKS

TURNOVER 2018	134
BANDWITH GROWTH SCENARIOS	175-200

#### CARE

TURNOVER 2018	58
BANDWITH GROWTH SCENARIOS	70-100

#### TUNNEL & INFRA

TURNOVER 2018	98
BANDWITH GROWTH SCENARIOS	100-150

#### PARKING

TURNOVER 2018	58
BANDWITH GROWTH SCENARIOS	75-100

#### MARINE & OFFSHORE

TURNOVER 2018	69
BANDWITH GROWTH SCENARIOS	100-125

#### MACHINE VISION

TURNOVER 2018	129
BANDWITH GROWTH SCENARIOS	250-300

#### TIRE BUILDING INDUSTRY

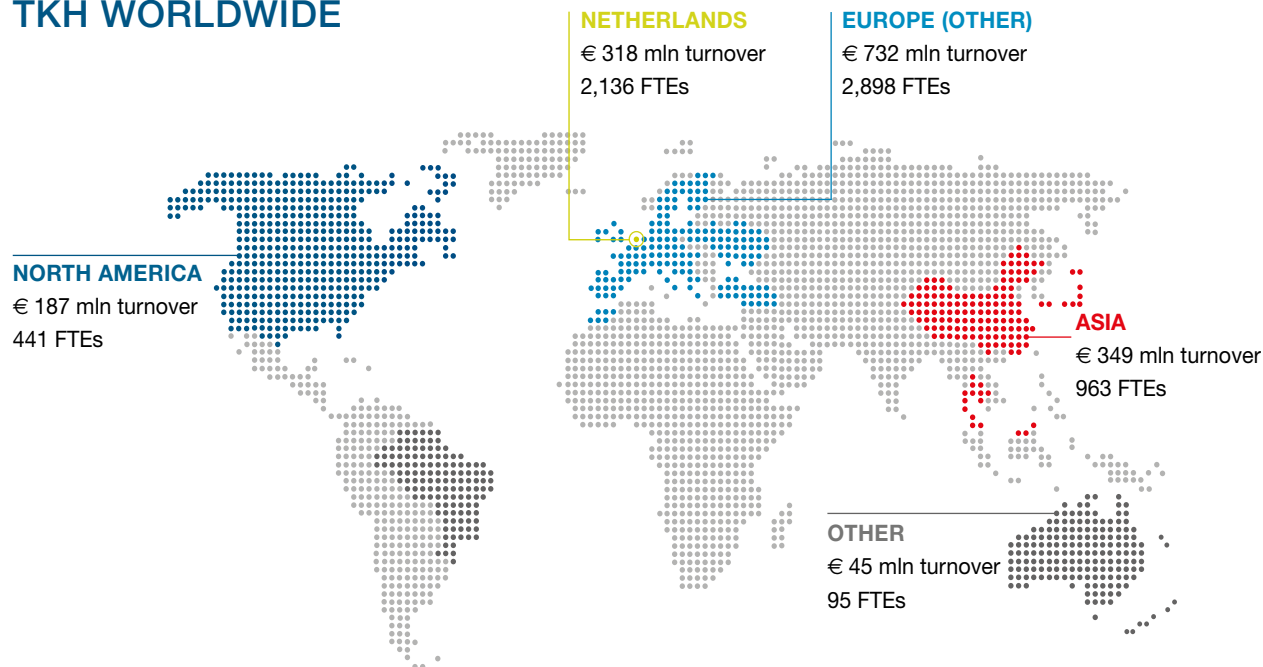
TURNOVER 2018	333
BANDWITH GROWTH SCENARIOS	450-550



# TECHNOLOGY COMPANY TKH

The increase in both turnover and profit is the direct result of the strategy which we have pursued, involving the transposition of unique technologies into smart solutions for our customers. We are clearly reaping the benefits of the focus which we have directed at our four core technologies and seven vertical growth markets. Thanks to strict investment discipline, our market position has improved substantially in recent years.

## TKH WORLDWIDE



## MISSION

TKH aims to be a leading innovative technology niche player that through combinations of its four core technologies, offers complete systems which lead to greater efficiency, more comfort and improved safety for its customers. By offering best-in-class solutions, TKH constantly seeks to exceed its customers' expectations. TKH strives to be an attractive employer and to be a solid investment for its shareholders, whereby a socially responsible way of doing business is placed centrally.

## LONG-TERM VALUE CREATION

TKH's value creation process is a dynamic, ongoing one. It is aimed at responding to the requirements and needs of our stakeholders through our business processes and to identify opportunities and risks at an early stage which are driven by economic, geopolitical, ecological, sustainable, social and technological trends. This occurs with the aim of achieving long-term value creation.

## TRENDS & DEVELOPMENTS

We follow trends that can influence our environment and of what we think will have an impact on the markets that are relevant to TKH. These are important drivers for achieving growth in the medium and long-term, on the basis of which value is created for our stakeholders. Important trends for TKH include digital transformation, demographic developments and sustainability.

TKH's strategy is directed towards achieving technological leadership with a strong position in seven vertical growth markets.

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## STRATEGY AND OBJECTIVES

TKH's strategy is directed towards achieving technological leadership with a strong position in seven vertical growth markets. The following four key points have been identified as part of its strategic process: core technologies & innovations, growth & economies of scale, financial strength and sustainability. Based on these key points, we have determined our strategic direction and have defined specific objectives on how we implement the strategic process.

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## LEADERSHIP AND EXPERTISE

Short lines of communication, delegated authority and entrepreneurship are typical of the way we work at TKH. As far as the subsidiaries are concerned this structure promotes internal synergy, and know-how and experience can be put to best use within the group so that market opportunities can be even better utilized. Abilities in the field of research & development, engineering, marketing, process development, project management, manufacturing, logistics and assembly are shared between the three business segments. We set goals which are inspiring and ambitious but realistic, and which motivate our employees to realize their full potential. Our managers constitute the link between the strategic objectives which we have formulated and their achievement. Our people represent our most important capital and the driving force behind our success.

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## ORGANIZATIONAL STRUCTURE

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 demands. We seek to achieve strong market positions based on our innovative core technologies, which are incorporated into total solutions (tailored or otherwise). TKH and its companies are active throughout the world while maintaining a local presence in strategically relevant areas, which makes it possible to maintain short communication lines and close contact with our customers anywhere in the world.

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## CULTURE AND GOVERNANCE

TKH has a culture as part of which entrepreneurship is encouraged. This entails an active approach towards the market together with sound risk assessment, to ensure that we are capable of making balanced decisions. TKH attaches a great deal of importance to the principles of good governance: integrity, transparency, accountability and adequate oversight. The TKH core values determine the direction of our strategies and objectives in the long-term and constitute a permanent part of our day-to-day actions and our decision-making process.

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## COMPETITIVE LANDSCAPE

TKH's market is spread geographically and is predominantly focused on Europe, North America and Asia. The combination of TKH's four core technologies to create unique (complete) solutions represents a major strength within our organization. Because of the distinctive character of our in-house developed technologies –protected with patents– the spectrum of our competitors is fragmented and focused on partial solutions. The threshold to entry into the market is high because of the distinctive technological level. There is a greater field of competition in relation to a part of our connectivity product portfolio. In this case our distinctive character lies in the introduction into the market of new technologies such as those employed in subsea cable systems and CEDD AGL, the high quality of our technologies, such as those used in specialty cables, or the combination of connectivity with other core technologies.

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## TKH CORE VALUES

- **ENTREPRENEURSHIP**  
strong in observing new opportunities and excellent in everything that we do.
- **INTEGRITY**  
always honest and respectful in our dealings with colleagues, customers and other stakeholders.
- **OPENNESS AND TRANSPARENCY**  
one of the foundations for long-term value creation and successful business operations.
- **RISK AWARENESS AND ACCOUNTABILITY**  
involvement in day-to-day activities and making the appropriate choices following close consideration.
- **SUSTAINABILITY**  
making a positive contribution to the environment and the social aspects of doing business.

# LONG-TERM VALUE CREATION

TKH's value creation process is a dynamic, ongoing one. It aims to respond to the wishes and requirements of our stakeholders through our business processes and to identify opportunities and risks at an early stage, which are driven by economic, geopolitical, ecological, sustainable, social and technological trends. Using sound R&D roadmaps, we focus on the development of the four core technologies. By integrating these technologies effectively, we create unique, innovative, total solutions that are suitable for multiple markets. Entrepreneurship and the development of talent are important concepts within our group for the purposes of constantly boosting our (long-term) value creation.

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Entrepreneurship and the development of talent are important themes for continuously improving our (long-term) value creation.

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## INPUT



### **FINANCIAL** Financial position

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.



### **PRODUCED** In-house and outsourced manufacturing

We have production plants which are involved in manufacturing in accordance with the LEAN and Six Sigma principles. To maximize ROCE and ensure the flexibility of our capacity, our aim is to outsource as much of our capital-intensive production as possible. We maintain capital-intensive manufacturing capacity under our own control where it is important to do so for strategic reasons.



### **HUMAN** Employees and other strategic stakeholders

We employ talented, professional people and in this respect consider that our workforce is a good reflection of society with its various aspects of diversity. We offer our people a safe, inspiring working environment and provide opportunities for further development.



### **INTELLECTUAL** Intellectual property

We focus on the development of our own advanced technologies and, in addition, enter into partnerships with suppliers of specific technology components or solutions. Software plays an increasingly important role as part of our core technologies, allowing us to integrate them appropriately and to ensure that they are smart in relation to analysis and control.



### **NATURAL** Dealing with raw materials and general environmental values

In the case of each business decision we also consider its impact on the environment. As a procurer, TKH enters into active dialogue with its strategic suppliers in order to improve the sustainability of their products and processes. Sustainability in the supply chain is an increasingly important basis for operating sustainably as a company.



### **SOCIAL AND RELATIONS** Networks and joint ventures

We conduct our activities in accordance with the 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. We believe that it is important to make a contribution to society and to invest in it.

# VALUE CREATION

## SUCCESS IN THE MARKET BASED ON STRATEGIC PRINCIPLES

- Innovations with a large return on investment for our customers
- Technologies focused on efficiency, safety, security and reliable processes
- Seven vertical growth markets in which our core technologies are positioned as a one-stop-shop for our customers

## CORE VALUES AS A GUIDELINE FOR OUR ACTIONS

- Entrepreneurship
- Integrity
- Openness and transparency
- Awareness of risks and responsibility
- Sustainability

### BUSINESS MODEL

- Service
- Assembly
- Outsourced and in-house manufacturing
- R&D and system engineering

## 4 CORE TECHNOLOGIES

- Vision & security
- Mission critical communication
- Connectivity
- Smart manufacturing

## 3 SOLUTIONS

- Telecom Solutions
- Building Solutions
- Industrial Solutions

## 7 VERTICAL GROWTH MARKETS

- Fibre Optic Networks
- Care
- Tunnel & Infra
- Parking
- Marine & Offshore
- Machine Vision
- Tire Building Industry

# OUTPUT

## FINANCIAL

- A financially sound environment may be achieved through:
- Healthy balance sheet ratio and a strong operational cash flow.
  - An above-average annual increase in earnings per share.
  - Focus on organic growth.
  - Achievement of stipulated internal ratios.
  - Compliance with agreed bank covenant ratio.

## PRODUCED

- An efficient, sustainable manufacturing environment may be achieved through:
- Application of the LEAN and Six Sigma principles.
  - Production subsidiaries need to be ISO 14001 certified.
  - Constant devotion of attention to reduction of energy consumption, waste and recycling.
  - Implementation of energy efficiency programs.

## HUMAN

- Evidence of improvement of human capital is demonstrated by:
- High employee satisfaction survey participation.
  - Constant investments in training and development for employees.
  - Devotion of increased attention to diversity.
  - Ongoing investments in health and safety.

## INTELLECTUAL

- A top quality organization and corresponding product portfolio is achieved through:
- Constant devotion of attention to new technologies and innovations.
  - Protection of technologies and IP rights with aid of patents.
  - Sound R&D roadmap.

## NATURAL

- Environmentally related elements may be guided through:
- Sustainable use of energy and raw materials.
  - Operation in accordance with LEAN and Six Sigma principles, and ISO 14001.

## SOCIAL AND RELATIONS

- Evidence of an involved, socially conscious business may be found in the following:
- High customer satisfaction.
  - Constant communication with suppliers: zero-tolerance policy.
  - Top priority for rapid complaints handling.
  - Community investments.

# OUTCOME

## FINANCIAL

- ROS: 11.3%
- ROCE: 21.3%
- Net earnings per share: € 2.58
- Debt-leverage ratio: 1.5
- Dividend payout ratio: 54.2%



## PRODUCED

- Turnover: € 1.6 billion
- Energy consumption in kWh: 104.4 million
- Energy consumption in CO<sub>2</sub>: 49.1 million



## HUMAN

- Number of training hours/FTE: 24
- Employee satisfaction: 7.2
- Sickness absence: 3.47%
- Labor costs: € 405.4 million (excl. capitalization)



## INTELLECTUAL

- Innovations: 20.8%
- R&D spending: € 60.8 million
- Subsidies and tax savings through R&D: € 7.4 million



## NATURAL

- Energy consumption -3.0%
- CO<sub>2</sub> emissions -4.4%
- Waste of material usage (excl. learning curve effects): 4.9%
- Recycling: 79.0 %



## SOCIAL AND RELATIONS

- Customer satisfaction: 7.9
- Complaints handling within 5 working days: 80%
- Community investments (as a percentage of net profit): 0.4%



# TRENDS & DEVELOPMENTS

People, economies and markets are influenced by a number of fundamental social trends. Such megatrends are largely driven by demographic changes and increasing digitization. These trends clearly present challenges but also opportunities to satisfy current and future needs. They are also important drivers for the achievement of growth in the medium and long-term, with the aid of which value is created for our stakeholders. We rank trends in themes that are strategically relevant to TKH.

## AS A TECHNOLOGY COMPANY, TKH CLOSELY MONITORS DIGITAL TRANSFORMATION DEVELOPMENTS.

- The development of 5G is producing unimaginably fast mobile networks offering numerous new potential applications for, amongst other things, the internet of things in both the private and business sectors.
- The fourth industrial revolution is producing developments such as advanced robotics, autonomous transport, artificial intelligence and machine learning.
- There is a growing demand for more efficient and accurate production processes to make machines capable of learning and guiding themselves.
- A product's life cycle is determined mainly by its useful life and increasingly less so by its lifespan. This renders it necessary to innovate more rapidly, to retain or improve the competitive position.



## OUR EMPLOYEES REPRESENT OUR MOST IMPORTANT CAPITAL AND ARE A DECISIVE FACTOR IN TKH'S SUCCESS.

- The population is growing, people are living longer and living standards are rising. In general, populations throughout the world are older, wealthier, live increasingly in urban areas and are increasingly associated with global supply chains through technology.
- The enormous amount of data which people generate and which is available to businesses, academics, public authorities and other parties is changing our daily life as well as the business community. Because of digitization, jobs will disappear but many other new ones will be created, mainly in the ICT and technology sectors.
- Work and private life are becoming integrated into new lifestyles and this demands that companies follow suit.



## TKH WISHES TO CONTRIBUTE TO A SUSTAINABLE SOCIETY.

- Global climate agreements demand energy systems sourced from renewable, sustainable sources, such as wind and solar energy.
- Apart from the scarcity of raw materials, the systems used to obtain those materials are having an ever greater adverse effect on ecosystems.
- The prices of raw materials are increasingly more volatile. By ensuring that raw materials are renewable it is possible to use them more efficiently and to reduce waste flows.
- Greater attention needs to be devoted to design in order to recover high-grade raw materials.



# GROWTH DRIVERS

TKH focuses on the seven defined vertical growth markets in which above-average growth and returns can be achieved due to the trends and growth opportunities that lead to a high priority for investments in our core technologies.

## FIBRE OPTIC NETWORKS

- Internet has now become a utility, just like gas, water and electricity.
- Developments such as internet of things, Industry 4.0 and 'internet of vehicles' demand high-speed internet (mobile and otherwise); the emergence of 5G networks.
- 24-hour accessibility is becoming increasingly more widespread and accepted.

## CARE

- Life expectancy is continually increasing and healthcare spending is rising due to more and better, but also more expensive care.
- Growing demand for technological healthcare solutions.
- Shortage of skilled workers.
- Informal caregivers and healthcare professionals are equal partners; technological support for exchange of information as required.
- A growing demand for medication (volume) because of demographic developments, whereas there is a need to reduce the cost of healthcare.
- Acceptance of robotization in pharmaceutical wholesale sector.

## TUNNEL & INFRA

- High priority to make airports safer, to make airport infrastructure more readily available and to deal with aircraft movements more expeditiously.
- EU investments for the improvement of infrastructure.
- Due to strict security legislation and regulations increasing demands are being made for technical equipment in tunnels, amongst other places.
- Growing demand for technologies in order to comply with strict requirements: evacuation, communication, detection, identification and safety, and infrastructure is becoming more readily available.

## PARKING

- Income from parking garages is under pressure due to reduced inbound and outbound traffic flows.
- Provide managers and parking facility operators with information more quickly and efficiently through a visual dashboard.
- Boost capacity utilization rate and income thanks to differentiated parking fees.
- Call for greater comfort for parking attendants.
- Thanks to technology more data is available to use in order to improve efficiency, safety, access and payment options.
- Emergence of frictionless parking through technology.

## MARINE & OFFSHORE

- Large increase in power generated by wind energy throughout the world.
- Energy transition is leading to an increase in demand for cabling systems. There is a willingness to invest in quality ships, cruise liners and luxury yachts.
- Variation of supply chain because of limited storage facilities in shipyards and on platforms - high cost of stagnation.
- Considerable demands on system availability under various environmental conditions, such as extreme temperatures, humidity, oil and salt water.
- Great deal of attention devoted to safety on platforms through special zone certification.

## MACHINE VISION

- Demand for vision technology thanks to trend towards industrial automation and robotization (Industry 4.0).
- Vision technology for detection, inspection and identification of manufactured products - satisfy demand for efficiency and high productivity.
- Sharp increase in number of applications in which vision technology may be used.
- Because of strict regulations governing quality of food and medicines, vision technology offers a solution to provide full traceability and to serve as a fail-pass module.

## TIRE BUILDING INDUSTRY

- Top priority for entire tire building industry to replace existing technology with emphasis on high productivity, efficiency, reduction of waste, improved quality and smaller batches.
- Sharp increase in number of types of tires for passenger vehicles demands more flexible manufacturing methods.
- Trend towards ever larger tire dimensions and towards safer, better quality tires is leading to a demand for technological development.
- Reduction of working capital requirements in tire building industry supply chain.
- 'Eyes and hands off' manufacturing: production systems offering greater productivity and operator independence.

# SWOT ANALYSIS

## INTERNAL FACTORS

### STRENGTHS

- Innovative core technologies with a marked distinctive character.
- Efficient R&D organization and extensive R&D investments - protection of technology and intellectual property rights with patents.
- Strong (niche) positions in defined vertical growth markets.
- Customer-specific total solutions combined with technology platforms can be used for multiple applications.
- Benefits of economies of scale by spreading technologies over product and market combinations, and geographical markets.
- Good reputation and financial strength.
- Highly flexible production capacity.
- Successful acquisition policy and good integration of companies that have been acquired.
- Organizational model with local entrepreneurship and innovative capacity.
- Quality and involvement of employees.
- Interesting employer thanks to profiling entrepreneurship and development potential.

### WEAKNESSES

- Limited global position in a number of subsegments.
- Dependence on government measures in some markets.
- Limited brand familiarity in a number of geographical markets.

## EXTERNAL FACTORS

### OPPORTUNITIES

- Demand for complete high-tech systems.
- Trend towards outsourcing technology.
- Emergence of internet of things, robotization and smart factories.
- Vision technology for more efficient and accurate production processes.
- Above-average opportunities for growth in defined vertical growth markets.
- Extension of software part of solutions and service components.
- Need for energy transition is leading to a large demand for cable solutions.
- Increasing integration of corporate social responsibility.

### STRENGTHS-OPPORTUNITIES STRATEGY

- Utilize our financial strength for further investments in technological development with which organic growth can be achieved in promising market segments.
- Use our innovative core technologies to ensure an optimum response to trends.
- Use our fine reputation as an attractive employer to recruit and retain talented employees.

### WEAKNESSES-OPPORTUNITIES STRATEGY

- Striving for constant technological lead based on in-depth analysis of opportunities and environmental analyses in conjunction with facilitation of financial scope to invest an adequate amount in research & development.
- Exploits TKH's positioning, scale and innovations to take advantage of market share growth opportunities based on TKH's distinctiveness character.

### THREATS

- Global geopolitical situation.
- Speed of technological developments.
- New technologies offering better prospects than TKH's technologies.
- Harmonization of niche specifications to produce standard commodity solutions.
- Lack of clarity concerning the extent of the economic impact of persistent division within the European Union.
- Scarcity of properly qualified, technical specialists.
- Shortage of raw materials and fluctuating raw material prices and foreign exchange rates.
- Growing threat of cybercrime.

### STRENGTHS-THREATS STRATEGY

- Spreading its operations over multiple product and market combinations, and focusing on vertical growth markets will make TKH less dependent on government measures.

### WEAKNESSES-THREATS STRATEGY

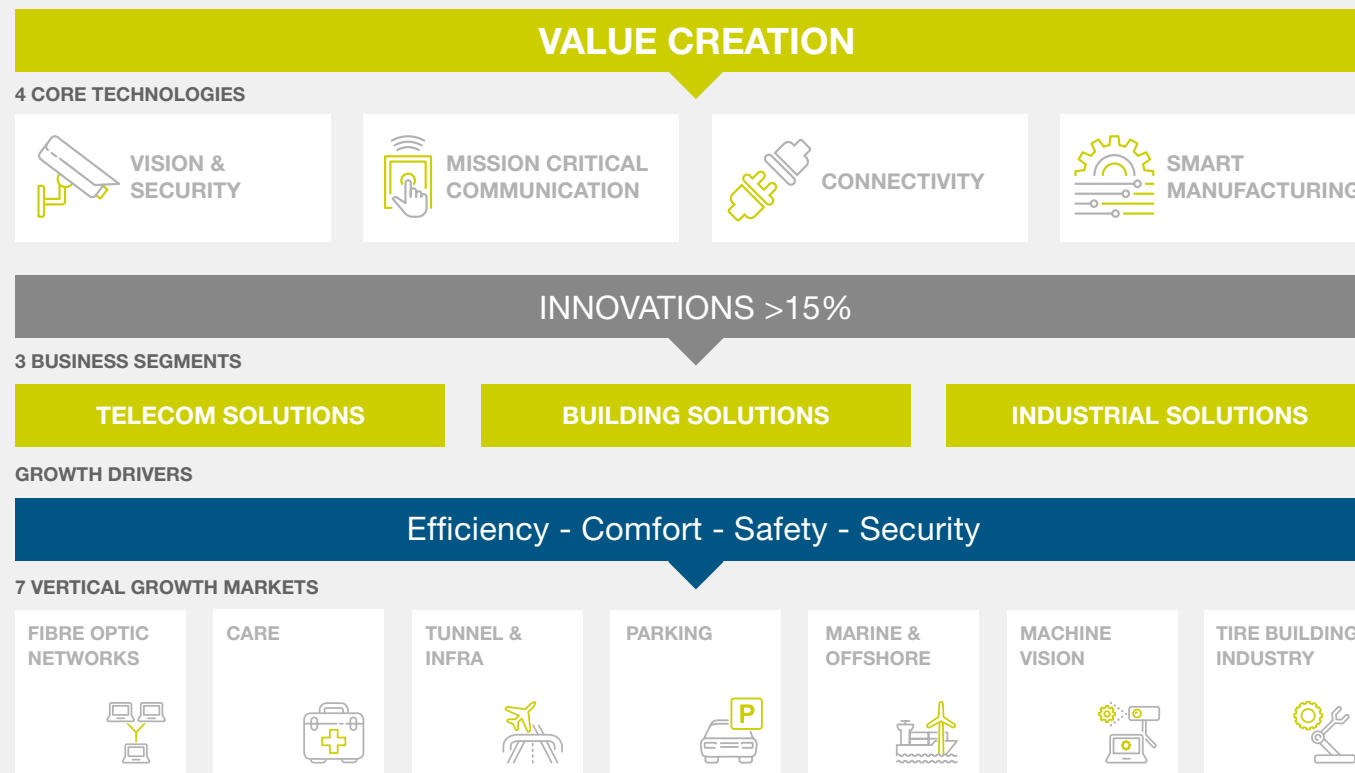
- Boosting our global position by extending our presence in a number of international markets on the basis of defined vertical growth markets.
- Improving our brand familiarity through an increase in reference projects in markets in which our brand familiarity is limited and by aiming for intensive market positioning.



# STRATEGY & OBJECTIVES

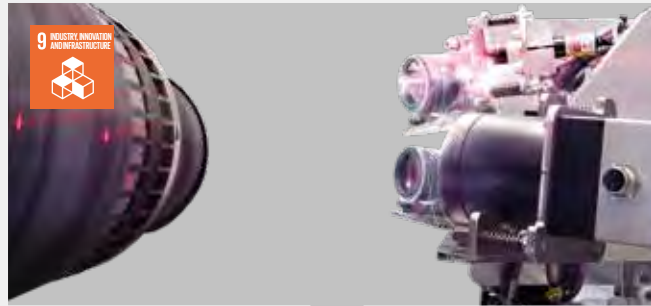
TKH's strategy is directed towards achieving technological leadership with a strong position in seven vertical growth markets. The following four key points have been identified as part of its strategic process: core technologies & innovations, growth & economies of scale, financial strength and sustainability. Based on these pillars, we have determined our strategic direction and have defined specific objectives in order to flesh out our strategic process. In this way we are continuing to develop our organization as well as our product portfolio in order to create added value for our customers and other interested parties.

## BUSINESS MODEL TKH GROUP



# STRATEGIC PILLARS

TKH's strategy is directed towards achieving technological leadership with a strong position in seven vertical growth markets.



## CORE TECHNOLOGIES & INNOVATIONS

Constant attention to innovation produces a range of products and services that guarantee technologically advanced solutions. With our four core technologies we can respond to these growth trends and can offer innovative total solutions by combining these technologies. Investments in research and development and the roll-out of innovations are important areas of focus for growth. Our target is to generate at least 15% of turnover through innovations introduced in the previous two years. More than 30% of the products comprising our portfolio are at an early stage of their life cycle. We invest predominantly in our own technological development, although we also work closely with other parties on specialisms. As far as possible, we would like to own the technology or negotiate exclusivity for the supply of technology by other parties in the countries in which we operate. Within our business segments we have defined seven vertical growth markets where we expect to achieve turnover growth of between € 300 million and € 500 million in the next three to five years.



## GROWTH & ECONOMIES OF SCALE

We will focus on securing a leading position in niche markets. We will expand through organic growth and acquisitions. The geographical spread and expansion of successful TKH activities and the transfer of knowledge from competence centers offers opportunities for international growth. In geographical terms, the focus for growth lies in Europe, North America and Asia, but also in other parts of the world where there are activities within our vertical growth markets. The emphasis in acquisitions is on structurally sound companies that align with our four core technologies and their related vertical growth markets. We will seek between one and three acquisitions a year, each representing turnover of between € 10 million and € 50 million. During the period ahead we will focus predominantly on organic growth and the optimal integration of the businesses which we have already acquired into the TKH organization, with the greatest priority being accorded to collaboration and the combination of strengths. Our market strategy demands qualified employees. We offer an inspiring, safe and healthy working environment and aim to have an open business culture in which our employees are acknowledged and heard. The diversity of our workforce will support the success of our strategy.



## FINANCIAL STRENGTH

As part of TKH's strategy we make effective use of opportunities for growth and limit financial and other risks. Healthy balance sheet ratios and a strong operating cash flow have a high priority in the development of the company. We wish to achieve an above-average annual increase in earnings per share, and seek a solvency ratio of no less than 35% and a net debt/EBITDA ratio of no more than 2.0.

By shifting to activities with greater added value and hence potentially larger margins, together with a growing share of operations performing above the current average, the bandwidth for the medium-term ROS target has been set at 12% to 13%. In the case of ROCE our medium-term target is a bandwidth of between 21% and 23%. To ensure an optimum ROCE and secure flexibility of our capacity (manufacturing and otherwise), our aim is to outsource as much of our capital intensive production capacity as possible. An exception will be made for any capital intensive production capacity which we deem to be important to retain in-house for strategic reasons.



## SUSTAINABILITY

Corporate social responsibility (CSR) is fully incorporated into TKH's strategy, with the result that, when implementing our strategy and achieving our objectives, we consider our social responsibilities. We consider the impact of our activities and business operations on the following four aspects: People, Planet, Profit and Positioning, highlighting respectively the social side of business, attention to the environment and climate, the economic side of business and safeguarding integrity and our good name.

TKH strives to achieve a balanced product portfolio with innovative concepts which are tailored to customer requirements. Sustainability criteria are becoming ever more relevant in this respect.

TKH's sustainability targets tally closely with the sustainable development goals (SDGs). We would like to make a contribution towards these goals by incorporating the most relevant of them (SDGs 7, 8, 9 and 12) into our strategy and operations.

## OBJECTIVES

### INNOVATIONS

> 15%

### TURNOVER/ACQUISITION

€10 - 50 MILLION

### NET DEBT / EBITDA

< 2.0

### ROS

medium-term objective

12-13%

### ROCE

medium-term objective

21-23%

### RECYCLING








> 50%

### WASTE

< 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. To be able to achieve this growth, we have defined action plans on the basis of 25 building blocks. 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>MACHINE VISION</b>	 <b>TIRE BUILDING INDUSTRY</b>
<b>MARKET SHARE GROWTH FRANCE / GERMANY / NORDICS / POLAND</b>	<b>INTERNATIONALIZATION HOMECARE &amp; COMMUNITY PLATFORM</b>	<b>AIRFIELD GROUND LIGHTING-TECHNOLOGY BASED ON CEDD-TECHNOLOGY</b>	<b>DIFFERENTIATION VIA SMART-SENSOR / CCTV TO 'FRICTIONLESS' PARKING</b>	<b>CONNECTIVITY-SOLUTIONS FOR SUBSEA</b>	<b>HIGH MARKET GROWTH 2D-INSPECTION IN COMBINATION WITH INNOVATIONS</b>	<b>MARKET SHARE GROWTH WITHIN TOP 5- TIRE MANUFACTURERS</b>
<b>ROBOT SOLUTIONS FOR PATCHING</b>	<b>INTERNATIONALIZATION OF INTEGRATED VISION &amp; SECURITY SOLUTIONS FOR HOSPITALS</b>	<b>INTERNATIONALIZATION OF INTEGRATED VISION &amp; SECURITY SOLUTIONS FOR TUNNELS</b>	<b>INTERNATIONALIZATION OF INTEGRATED VISION &amp; SECURITY SOLUTIONS FOR PARKING GARAGES</b>	<b>INTERNATIONALIZATION OF INTEGRATED VISION &amp; SECURITY SOLUTIONS</b>	<b>HIGH MARKET GROWTH 3D-INSPECTION IN COMBINATION WITH INNOVATIONS</b>	<b>MARKET SHARE GROWTH 'TIRE COMPONENT PREPARATION', TRUCK TIRES &amp; LIGHT TRUCK TIRE MANUFACTURING</b>
<b>SMART SECURITY SOLUTIONS FOR POP'S</b>	<b>BLISTERING-TECHNOLOGY FOR PHARMACY - INDIVISION</b>	<b>MARKET SHARE GROWTH BENELUX / NORDICS</b>	<b>MARKET GROWTH AND TKH POSITIONING NORTH AMERICA / EUROPE / AUSTRALIA / MIDDLE EAST</b>	<b>INTERNATIONALIZATION OF CONNECTIVITY-SOLUTIONS</b>	<b>MARKET SHARE GROWTH NORTH AMERICA / EUROPE / ASIA</b>	<b>NEW TIRE BUILDING PLATFORM UNIXX &amp; MILEXX</b>
	<b>DISPENSER-TECHNOLOGY FOR MEDICINES</b>			<b>SPECIAL PORTFOLIO 'MISSION CRITICAL' COMMUNICATION</b>	<b>MEDICAL AND TIRE BUILDING INSPECTION SYSTEMS</b>	<b>INCREASE SHARE IN TURNOVER SERVICE &amp; SPARE PARTS BUSINESS</b>

# 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 them.

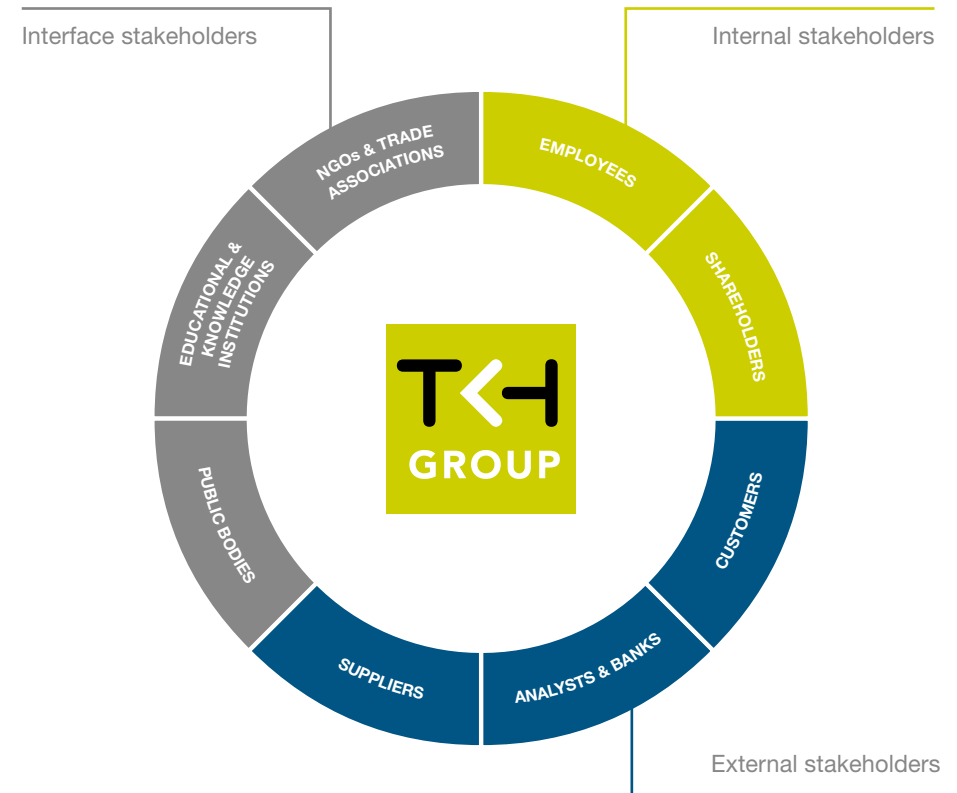
In the context of our business operations and based on our position in the supply chain, we are in regular dialogue with our stakeholders. This allows us to share and test our vision, our strategy and our expectations with them, with a view to further honing these aspects in our business operations.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

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Sharing mutual expectations with the starting point of being able to further sharpen these in our business operations.

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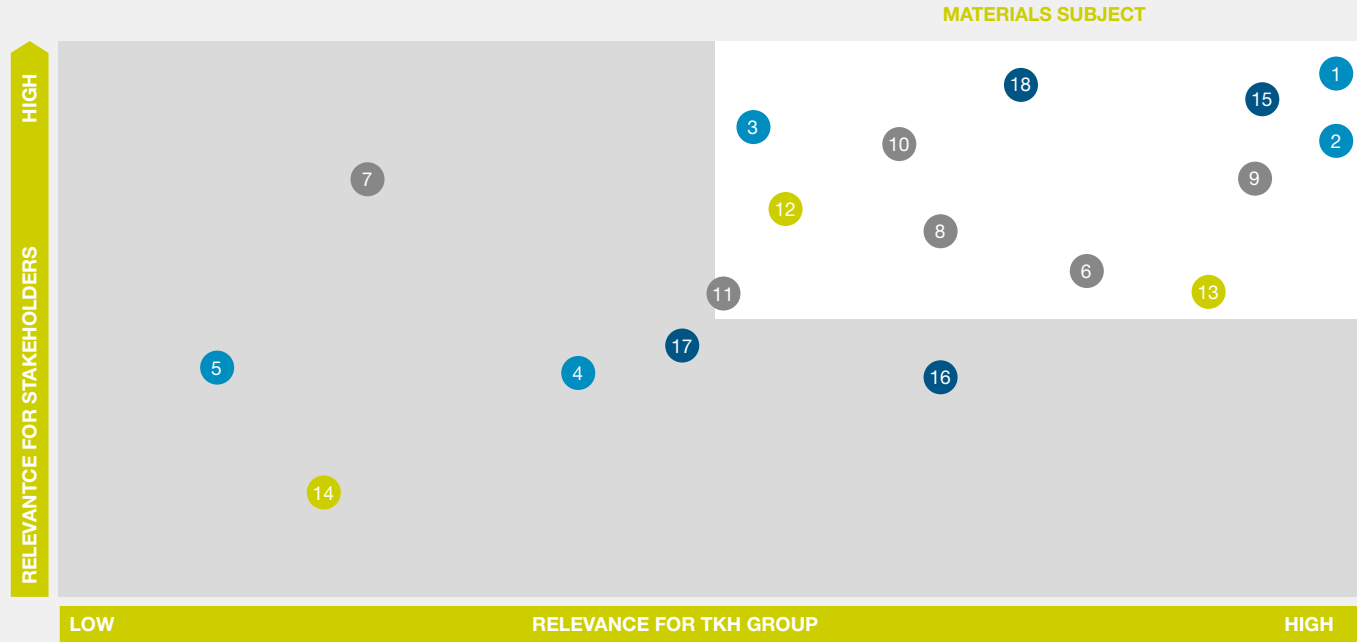
## STRATEGIC STAKEHOLDERS TKH



# STAKEHOLDERS DIALOGUE

	RELEVANCE TO TKH	RELEVANCE TO STAKEHOLDERS AND MOST IMPORTANT EXPECTATIONS	MEANS OF COMMUNICATION	KEY TOPICS IN 2018	SUPPORTIVE TO OUR STRATEGY
<b>EMPLOYEES</b>	<ul style="list-style-type: none"> <li>Crucially important for the success of TKH.</li> <li>The company's ambassadors.</li> <li>Most important "capital".</li> </ul>	<ul style="list-style-type: none"> <li>Good employment practices.</li> <li>Development opportunities and a good package of primary and secondary employment benefits.</li> <li>A safe and healthy working environment.</li> </ul>	<ul style="list-style-type: none"> <li>Internet and intranet.</li> <li>Employee magazine.</li> <li>Employee satisfaction survey.</li> <li>Meetings.</li> <li>Conferences and seminars.</li> <li>Webinars.</li> <li>Performance reviews.</li> </ul>	<ul style="list-style-type: none"> <li>Diversity.</li> <li>Sustainable employability.</li> <li>Health and safety.</li> <li>SDGs.</li> <li>IT, security and privacy.</li> </ul>	<ul style="list-style-type: none"> <li>Commitment to the diversity of the workforce.</li> <li>Learning organization.</li> <li>Boosts innovative capacity.</li> <li>Leadership and entrepreneurship.</li> <li>Raising IT security consciousness.</li> </ul>
<b>SHAREHOLDERS</b>	<ul style="list-style-type: none"> <li>Investment through a shareholding in TKH, thereby strengthening our capital position.</li> </ul>	<ul style="list-style-type: none"> <li>Good return on investment with good dividend policy and long-term value creation.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Financial reporting and annual reports.</li> <li>General meeting of shareholders.</li> <li>Investor days.</li> </ul>	<ul style="list-style-type: none"> <li>ESG.</li> <li>SDGs.</li> <li>Diversity.</li> </ul>	<ul style="list-style-type: none"> <li>Long-term shareholdings.</li> </ul>
<b>CUSTOMERS</b>	<ul style="list-style-type: none"> <li>Buy products and services.</li> <li>Develop sustainable package of products and services through collaboration.</li> </ul>	<ul style="list-style-type: none"> <li>Offer innovative, high-tech technologies and total solutions.</li> <li>Healthy ROI for customers.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Events, symposia and trade fairs.</li> <li>Customer satisfaction surveys.</li> </ul>	<ul style="list-style-type: none"> <li>Value chain initiatives.</li> <li>Sustainable product portfolio.</li> <li>SDGs.</li> <li>Customer satisfaction.</li> </ul>	<ul style="list-style-type: none"> <li>Technological developments.</li> <li>Growth targets.</li> </ul>
<b>SUPPLIERS</b>	<ul style="list-style-type: none"> <li>Supply of services and products for our business operations.</li> </ul>	<ul style="list-style-type: none"> <li>Fair business practices and doing good business at market rates.</li> </ul>	<ul style="list-style-type: none"> <li>Business associates.</li> <li>Negotiations.</li> <li>Code of supply and site visits.</li> </ul>	<ul style="list-style-type: none"> <li>Value chain initiatives.</li> <li>Sustainable product portfolio.</li> <li>SDGs.</li> </ul>	<ul style="list-style-type: none"> <li>Technological developments.</li> <li>Sustainable procurement.</li> </ul>
<b>ANALYSTS</b>	<ul style="list-style-type: none"> <li>With the aid of analysis and research, prepare profiles and ratings on the basis of which investors can make a selection for their investments.</li> </ul>	<ul style="list-style-type: none"> <li>Honest and transparent communication about developments.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Financial reporting and annual reports.</li> <li>IR meetings.</li> <li>Capital Markets Day.</li> <li>Reporting.</li> </ul>	<ul style="list-style-type: none"> <li>Financial ratios.</li> <li>Sectoral developments.</li> </ul>	<ul style="list-style-type: none"> <li>Long-term value creation and transparency.</li> </ul>
<b>BANKS</b>	<ul style="list-style-type: none"> <li>Financial service providers with the aid of which TKH is able to achieve its growth targets.</li> </ul>	<ul style="list-style-type: none"> <li>Creditworthy company that is appropriately balancing risks against returns and complies with contractual agreements.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Financial reporting and annual reports.</li> <li>Half-yearly discussions.</li> </ul>	<ul style="list-style-type: none"> <li>Financial ratios.</li> <li>Risk analysis.</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable funding policy.</li> </ul>
<b>PUBLIC BODIES</b>	<ul style="list-style-type: none"> <li>Act as initiator, facilitator of supply chain and other projects, and driver of sustainable solutions.</li> </ul>	<ul style="list-style-type: none"> <li>Boost the economic appeal in the region with respect to business office location and employment.</li> <li>Supply chain initiatives with a significant contribution to sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Network and thematic meetings.</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable and other developments in the region.</li> </ul>	<ul style="list-style-type: none"> <li>Strategic investment decisions.</li> </ul>
<b>EDUCATIONAL AND KNOWLEDGE INSTITUTIONS</b>	<ul style="list-style-type: none"> <li>Influx of new talent in order to compensate for a shortage of technical personnel.</li> </ul>	<ul style="list-style-type: none"> <li>Providing a challenging work environment with ample development opportunities.</li> <li>Providing traineeships - work experience.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Trade fairs and seminars.</li> <li>Social media.</li> </ul>	<ul style="list-style-type: none"> <li>Relevance of education (in relation to the relevant discipline).</li> <li>Profiling TKH as an interesting employer.</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable workforce.</li> <li>Learning organization.</li> </ul>
<b>COMMUNITY AND SECTORAL ORGANIZATIONS (INCLUDING NGOS)</b>	<ul style="list-style-type: none"> <li>Possess an extensive network and knowledge of the positions in the supply chain.</li> <li>Expertise in specific sectors.</li> </ul>	<ul style="list-style-type: none"> <li>Contribute ideas and start up joint ventures.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Reporting and reports.</li> <li>Annual reports.</li> </ul>	<ul style="list-style-type: none"> <li>SDGs.</li> <li>Climate change.</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable business operations.</li> <li>Consolidate social initiatives.</li> </ul>

# MATERIALITY MATRIX



- ECONOMIC**
  - 1 Financial targets
  - 2 Innovation and technologies
  - 3 Prudent tax policy
  - 4 Supply chain initiatives
  - 5 Local presence
- SOCIAL**
  - 6 Education and training
  - 7 Socially Responsible Procurement (SRP)
  - 8 Sustainable employability
  - 9 Health and safety
  - 10 Diversity in the workforce
  - 11 Good causes
- ENVIRONMENT**
  - 12 CO<sub>2</sub> and energy reduction
  - 13 Consumption of raw materials and waste reduction
  - 14 Water
- GOVERNANCE**
  - 15 Integrity and general organizational principles
  - 16 Customer satisfaction
  - 17 Human rights
  - 18 IT, security and privacy





	INFLUENCE	EFFECTS	RELEVANT GROUP OF STAKEHOLDERS
<b>ECONOMIC</b> 1 Financial targets 2 Innovation and technologies 3 Prudent tax policy 4 Supply chain initiatives 5 Local presence	direct direct indirect direct & indirect direct	internal internal & external internal internal & external internal & external	shareholders, analysts and banks employees, customers and suppliers banks and public bodies customers and suppliers public bodies
<b>SOCIAL</b> 6 Education and training 7 Socially Responsible Procurement (SRP) 8 Sustainable employability 9 Health and safety 10 Diversity in the workforce 11 Good causes	direct direct direct direct direct direct & indirect	internal internal internal internal internal internal & external	employees and knowledge institutions suppliers employees employees employees employees, NGOs
<b>ENVIRONMENT</b> 12 CO <sub>2</sub> and energy reduction 13 Consumption of raw materials and waste reduction 14 Water	direct direct direct	internal internal internal	suppliers, customers, public bodies and NGOs suppliers, customers, public bodies and NGOs N/A
<b>GOVERNANCE</b> 15 Integrity and general organizational principles 16 Customer satisfaction 17 Human rights 18 IT, security and privacy	direct & indirect direct direct & indirect direct & indirect	internal & external internal internal & external internal & external	employees, customers, suppliers, shareholders, banks and NGOs customers employees, customers, suppliers and NGOs employees, customers, suppliers and public bodies

The materiality matrix is composed of issues that are material to TKH and our stakeholders. The horizontal axis depicts a scale of material issues important to the TKH organization. The vertical axis ranks the subjects that our stakeholders believe are important. The greater the influence or relevance of an issue, the more material it is. By assigning a specific value to the issues, it is easier to see which ones are the most relevant. The materiality matrix covers a period of several years and is a dynamic model, with the result that it is frequently necessary to assess whether issues need to be raised or lowered.



# TKH AND THE SUSTAINABLE DEVELOPMENT GOALS

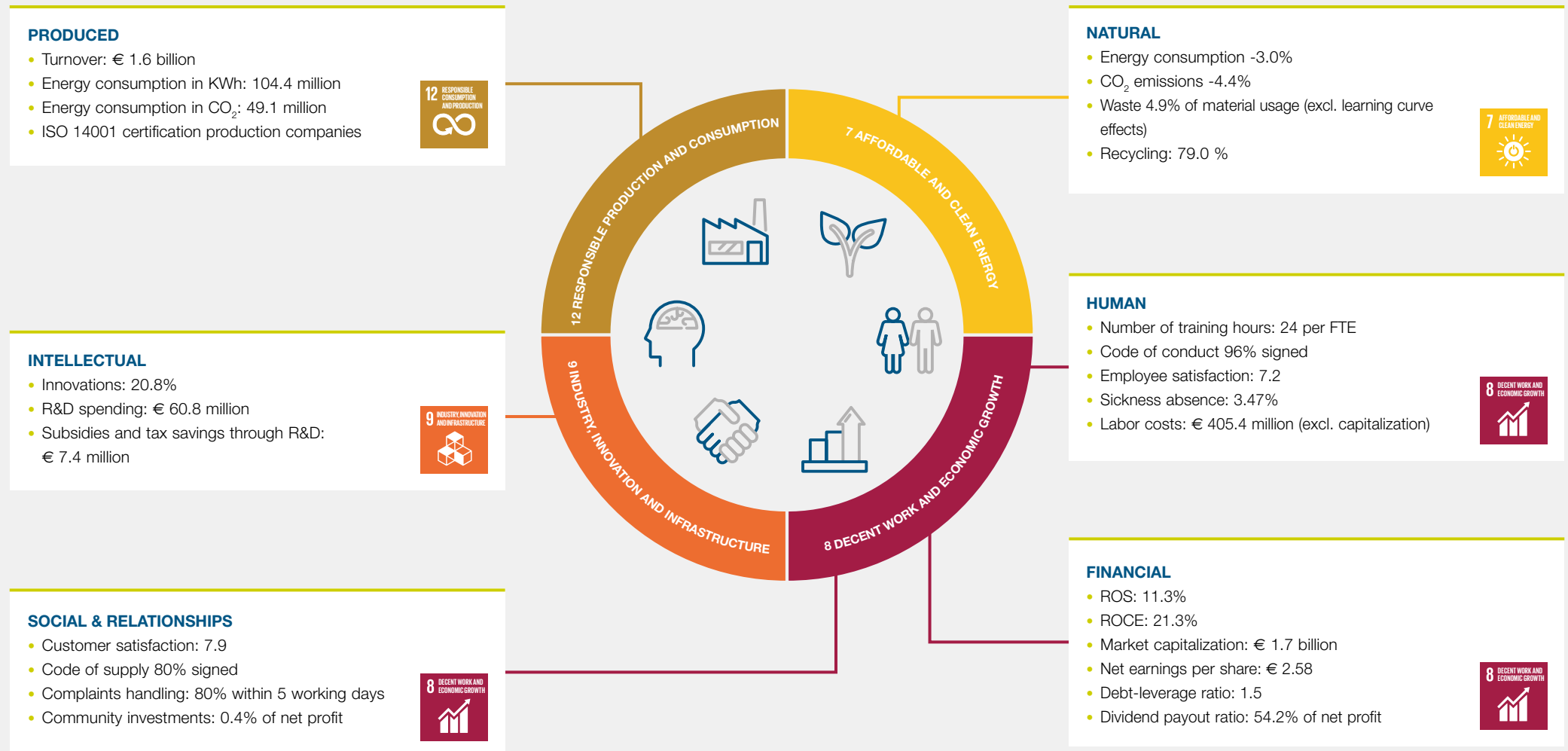
TKH recognizes the relevance of the SDGs (Sustainable Development Goals) and the role that the business community must play in order to achieve results. These goals constitute an action plan for a sustainable world. This action plan will gradually lead to change through new ways of cooperation and collective actions.

	STRATEGIC RELEVANCE TO TKH	VALUE WHICH TKH CAN CREATE	OUR CONTRIBUTION
<b>7 SUSTAINABLE AND AFFORDABLE ENERGY</b> 	<b>Sustainability</b> - in the case of all of our operations we consider their impact on the environment.	<ul style="list-style-type: none"> <li>• Sustainable customer and product portfolio.</li> <li>• Innovation.</li> <li>• Energy and CO<sub>2</sub> reduction.</li> </ul>	In its daily operations TKH continuously pays attention to the reduction of its energy consumption and CO <sub>2</sub> emissions. We have been working on reducing our energy consumption and CO <sub>2</sub> emissions for over 10 years and manage this by setting firm objectives. In addition, TKH develops technologies and solutions that contribute to energy efficiency and the use of renewable energy, such as sustainable cable systems for wind farms and CO <sub>2</sub> -neutral lighting systems.
<b>8 DECENT JOBS AND ECONOMIC GROWTH</b> 	<b>Growth and economies of scale</b> - We offer an inspiring, educational working environment and seek to have an open business culture in which our employees are acknowledged and heard. In addition, we offer a safe and healthy working environment. <b>Financial strength</b> - As part of TKH's strategy we make effective use of opportunities for growth and limit financial and other risks.	<ul style="list-style-type: none"> <li>• Innovations.</li> <li>• Good employment practices.</li> <li>• Financial targets.</li> <li>• Sustainable customer and product portfolio.</li> </ul>	TKH provides employees a safe, inspiring working environment. Employees may attend training courses enabling them to act effectively and to develop their skills further. Good primary and secondary employment conditions are self-evident. We also provide employment for people who are distanced from the labor market. Through both our business operations and our activities and technological solutions, we contribute to increased productivity, which stimulates the economy.
<b>9 INNOVATION AND SUSTAINABLE INFRASTRUCTURE</b> 	<b>Core technologies and innovations</b> - Constant attention to innovation produces a range of products and services that guarantee technologically advanced solutions.	<ul style="list-style-type: none"> <li>• Innovations.</li> <li>• Sustainable customer and product portfolio.</li> </ul>	Our technologies and solutions make it possible to build a sustainable infrastructure which complies with strict safety requirements and efficiency. TKH's technologies and complete solutions help our customers achieve sustainable operations and efficient production. We are making a contribution to a circular economy. TKH has identified innovation as a strategic priority for further growth. This SDG touches on TKH's core business.
<b>12 SUSTAINABLE CONSUMPTION AND PRODUCTION</b> 	<b>Core technologies and innovations</b> - TKH strives to achieve a balanced, sustainable product portfolio with innovative concepts which are tailored to customer requirements. Sustainability criteria are becoming ever more relevant in this respect.	<ul style="list-style-type: none"> <li>• Sustainable customer and product portfolio.</li> <li>• Innovations.</li> <li>• Energy and CO<sub>2</sub> reduction.</li> <li>• Consumption of raw materials and waste reduction.</li> <li>• Socially responsible procurement.</li> </ul>	TKH's environmental policy aims at the continuous improvement of environmental performance, in respect of which TKH has targets for waste reduction and recycling. All of our manufacturing companies are certified for the ISO 14001 environmental management system and work according to the LEAN principle to prevent wastage. In the design phase TKH selects its raw and other materials in such a way that they do have a minimal adverse effects on the environment. TKH discusses sustainability with its suppliers through its code of supply.

In 2017 we identified those SDGs on which we have the greatest impact, so that we can contribute to this directly. To do this, we compared the SDGs with our business operations and core activities, and examined our entire process of value creation. In 2018 we brought the SDG sub-goals more closely into line with our existing KPIs, so as to obtain a clearer insight into our contribution to the SDGs and to ascertain where additional action is still required. In order to be able to assess our performance

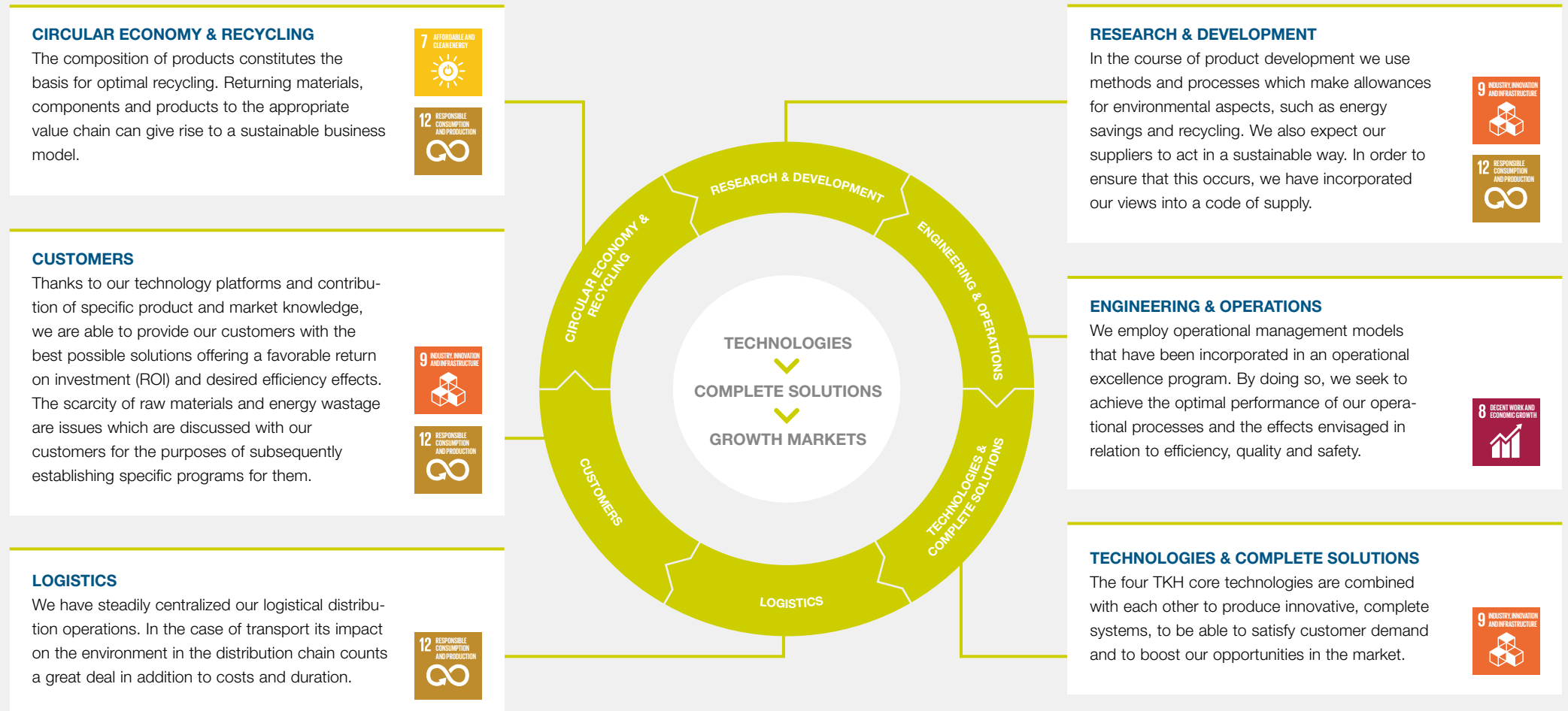
better in the future and to present reports, it is advisable to link quantitative information, in particular, to predefined goals.

During the year under review, we explicitly considered the SDGs in discussions with our stakeholders. In the course of them we explained our choice of those SDGs which are the most relevant to TKH and assessed the extent to which our stakeholders have an impact on these goals.



# TKH IN THE CHAIN

TKH develops and manufactures technologies that are combined into total solutions and then positioned in defined growth markets. An efficient and sound chain process, with a different scope and global footprint, is crucial to respond quickly and alertly to environmental factors and to customer requirements. Continuous operational excellence is encouraged by a sound chain policy, using clear guidelines to ensure compliance and continuity of the business. Sustainable business operations are also possible by cooperating with chain partners.



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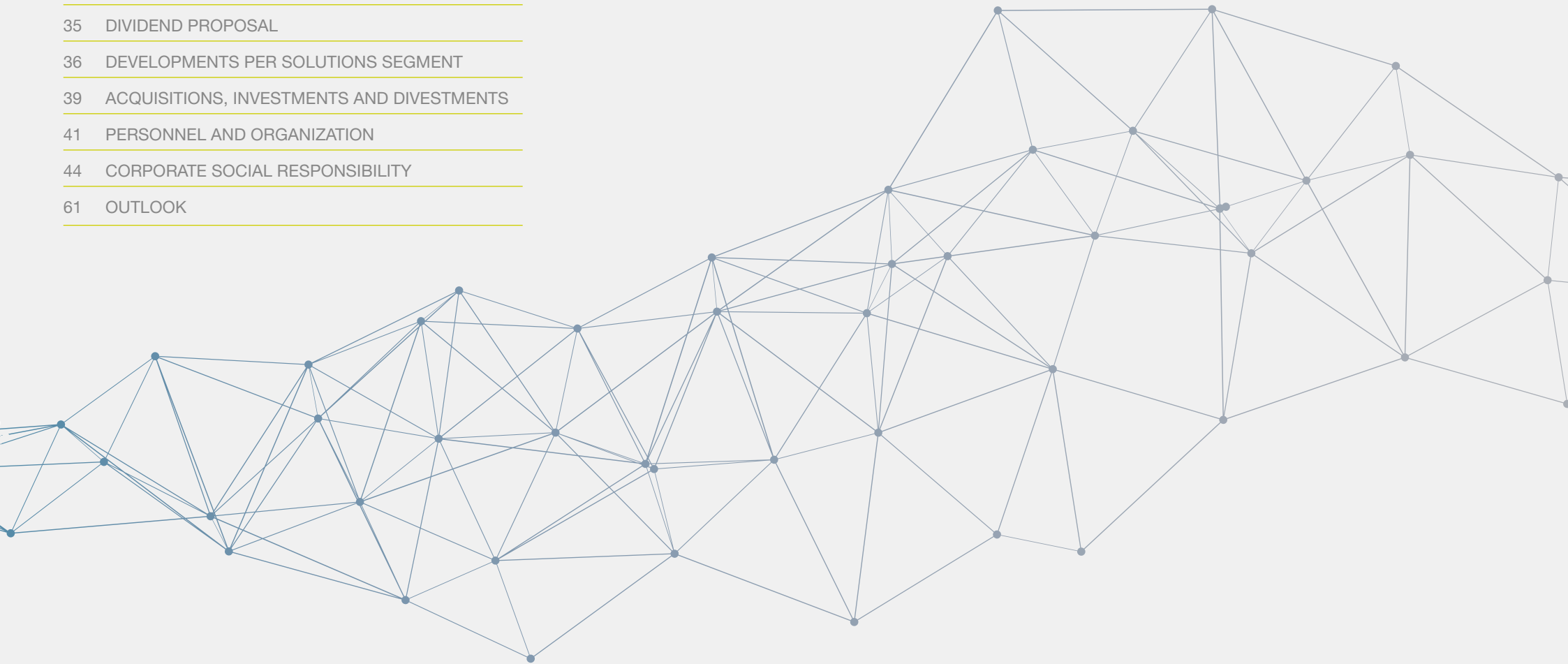
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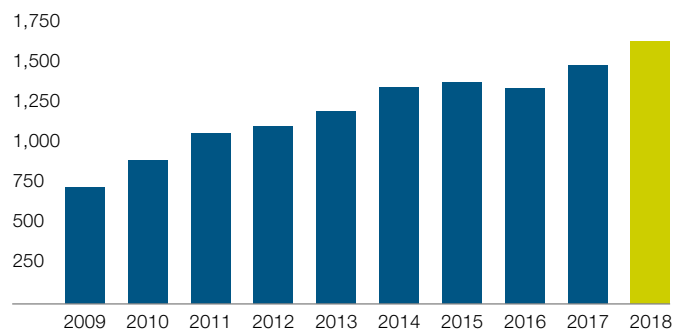
# GENERAL DEVELOPMENTS

In 2018 our strategy and focus led to the expected materialization of both turnover and profit growth. Again, innovations account for more than 20% of our turnover. We still faced a number of challenges, which were related to our high level of innovation. It is clear that our focus on vertical growth markets and core technologies has paid off. The fourth quarter 2018 was the best quarter in TKH's history. A clearly evidence of TKH's solid market position and innovative strength. We are on track to realize our medium term objectives.

**This year we will continue to build on the strong strategic foundations we have put into place.**

## TURNOVER DEVELOPMENT

in million €



TKH successfully benefitted from the focus on the four core technologies and the seven vertical growth markets. With a strong investment discipline our market position improved further in 2018. We have invested mainly in continued innovation, strengthening our commercial and technical organizations and expansion of our production capacity:

- In mid-2018 we increased our production capacity for 3D smart-sensor technology and further expanded our commercial organization (vision & security systems).
- In the fourth quarter, TKH acquired Lakesight Technologies, which further strengthened our position in the vertical growth markets Machine Vision and Tunnel & Infra. We have already launched the first synergy projects and this acquisition will contribute to TKH's earnings per share as of 2019 (vision & security systems).
- In December 2018, TKH acquired the start-up Ognios, that has a mission critical communications system certified according to the latest technological requirements, for in particular Marine & Offshore.
- We modernized and expanded our assembly facility for medical and industrial cable systems in Ukraine (industrial connectivity systems).
- In the third quarter, TKH took into use a new Chinese production facility for high-grade industrial cable systems (industrial connectivity systems).
- We doubled the capacity at our production facility for tire manufacturing systems in Poland, and this was taken into use at the end of 2018 (manufacturing systems).

- At the end of 2018, we began the expansion of our fibre optic production capacity, which will be completed in mid-2019 (fibre network systems).

This year we will continue to build on the strong strategic foundations we have put into place. We will continue to focus on creating a healthy return on all the investments we have made in our innovations and growth building blocks in recent years. Our innovations have proven to be an effective response to the positive trends in investments in robot systems and the continued need for increases in productivity, efficiency, safety and quality among the users of our technologies in the various market segments in which we operate. In a number of technologies, such as subsea cable systems and airfield ground lighting, good progress was made, but turnover and profit will have to materialize further.

The focus on the activities where we want to grow and see above-average opportunities has led to a clear improvement in the distribution of the management's attention and has further strengthened the position of TKH. Innovations, investments and focus on the vertical growth markets with our four core technologies in 2018 led to strong organic and profitable turnover growth, of 12.0% in the vertical growth markets and 7.4% in the other markets. The innovations we have developed in recent years are not only clearly successful in the seven vertical growth markets, but also in other markets. This resulted in an increase in ROS to 11.3% in 2018, from 10.1% in 2017.



turnover, consisting of innovations introduced in the market in the past two years, was again at a high level of 20.8%, confirms the effectiveness of our R&D efforts.

A follow-up was given to the program to further focus on the portfolio of activities, for the sake of shareholder value creation and to create an optimal return on the activities in the most suitable environment. Where limited value creation is possible in the TKH environment, this should lead to a divestment of activities in the coming years.

The cooperation within the group received a lot of attention in the form of various cooperation projects. Particularly within the vertical growth markets, we see that more and more joint forces are being built up from our subsidiaries in the form of technology roadmaps for our core technologies and combined strength, to make optimum use of the market positioning through account management. For example, various framework agreements were concluded with parties where the TKH portfolio as a one-stop-shop offers added value for our customers.

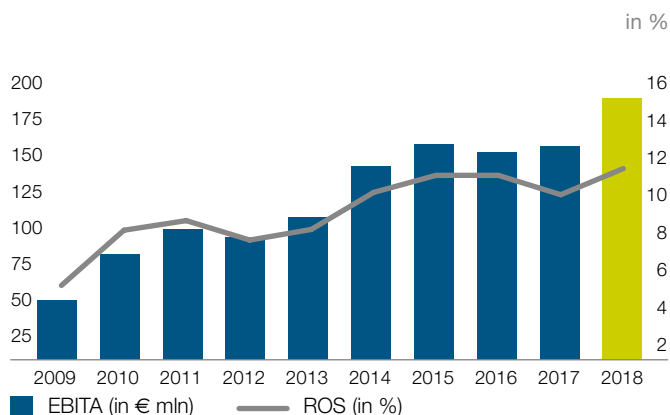
Our economies of scale increases efficiency, which enables us to continue to improve the return through investments in R&D, production capacity and market positioning. The combination of the various strategic steps we have taken means we are on track to realize our medium-term target of a ROS of 12-13%. The realization of the ROCE was 21.3% and was therefore within the medium-term target bandwidth of 21-23%.

Based on the implementation of our growth plans, in combination with the defined building blocks for growth and the related roll-out of new technology, there is a firm basis to expect that the turnover in the defined seven vertical growth markets will increase by € 300 to € 500 million the coming 3-5 years and thus once again be set as a growth target.

R&D expenses slightly increased by € 0.9 million to € 60.8 million. As a technology company, it is necessary to remain up-to-date regarding the technological lead. The ambition for the growth to be realized, requires a highly innovative character and associated R&D costs and investments. It is important that the effectiveness of the R&D investments is tightly monitored, as well as the intended return on these investments and expenditures. The fact that innovation

The geographical distribution of turnover remained reasonably in line with the previous year. Mainly due to the increased demand in the building and construction sector and in energy networks, turnover in the Netherlands increased 14%, to which the share of turnover in the Netherlands slightly increased to 20% compared to previous year. The share of turnover in Europe excluding the Netherlands decreased slightly to 45% and the share of turnover in Asia increased slightly to 21%. The share in North America increased to 11%, mainly as a result of the raise in turnover within Parking. Turnover in the other geographical regions was 3%.

#### EBITA AND ROS DEVELOPMENT \*



\* before one-off income and expenses

As a technology company, it is necessary to remain up-to-date regarding the technological lead.

# FINANCIAL DEVELOPMENTS

Turnover increased by € 146.0 million (9.8%) to € 1,630.8 million in 2018 (2017: € 1,484.8 million). Organic turnover growth was 9.4%. Acquisitions contributed 0.9% to turnover. Higher raw materials prices had a positive impact of 0.1% on turnover, foreign currencies had a negative impact of 0.6%.

## The collaboration within the group received a lot of attention in the form of various cooperation projects.

Telecom Solutions recorded organic turnover growth of 2.0% in 2018. At Building Solutions, organic turnover growth was 9.7% and 11.4% at Industrial Solutions.

The gross margin increased to 45.5% in 2018, from 45.0% in 2017. This increase was the result of a changed product mix and the normalization of start-up and replacement costs for new technologies.

Operating expenses were up 7.3% compared to 2017, which was largely due to the higher production level. We also expanded the production facility for tire manufacturing systems in Poland in the course of 2018 and took into operation a production facility in China for high-grade specialty cable systems. On the other hand, the start-up costs for new technologies and the strengthening of the organization were higher last year. R&D expenditure, of which 49.6% was capitalized as development costs (2017: 51.2%), was up slightly at € 60.8 million (2017: € 59.9 million). Acquisitions

resulted in a 1.7% increase in expenses. Operating expenses as a percentage of turnover declined to 34.1% in 2018, from 34.9% in 2017. Depreciation amounted to € 27.9 million in 2018, which was € 3.1 million higher than the level of 2017, due to the higher investment level in recent years.

The operating result before amortization of intangible assets and one-off income and expenses (EBITA) was € 184.6 million

in 2018, up 23.5% from the € 149.4 million recorded the previous year. EBITA at Telecom, Building and Industrial Solutions was up 8.7%, 29.8% and 21.2% respectively. The ROS increased to 11.3% (2017: 10.1%).

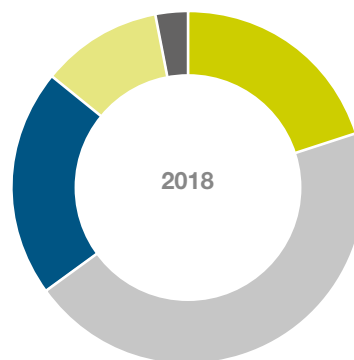
Amortization came in € 3.8 million higher at € 40.3 million, primarily due to the acquisition of Lakesight Technologies and higher R&D investments in recent years. In addition, TKH recognized impairments of on balance € 1.5 million.

Financial expenses fell by € 0.4 million to € 6.4 million in 2018 due to the lower interest rates. However, TKH recorded a negative exchange rate effect of € 0.3 million in 2018 (2017: € 1.2 million). The result from other participations improved by € 0.9 million.

A partial release of the provision for earn-out and put-option obligations resulted in an income of € 0.5 million. In 2017, we recognized tax-exempt income of € 9.6 million, largely due to the sale of the share-interest in Nedap and the settlement in the squeeze-out procedure with the former minority shareholders of Augusta Technologies AG.

The tax rate for 2018 was 21.4% (2017: 18.9%). The tax rate in 2017 was impacted by the relatively high tax-exempt income as described above. In 2018, fiscal R&D facilities, such as the Dutch innovation box facility, also had a downward impact on the total effective tax rate.

### GEOGRAPHICAL DISTRIBUTION OF TURNOVER in %



	2018	2017
Netherlands	20	19
Europe (other)	45	47
Asia	21	20
North America	11	10
Other	3	4



Net profit before amortization and one-off income and expenses attributable to shareholders increased by 26.7% to € 121.1 million in 2018 (2017: € 95.6 million). The acquisition of Lakesight Technologies made no contribution to the result in 2018 yet, as the acquisition costs were higher than the result included in the consolidation over the relatively short remaining period of 2018. The net profit for 2018 amounted to € 108.7 million (2017: € 87.5 million). Earnings per share before amortization and one-off income and expenses came in at € 2.88 (2017: € 2.27). The ordinary earnings per share amounted to € 2.58 (2017: € 2.05).

The cash flow from operating activities stood at € 126.7 million in 2018 (2017: € 159.6 million). This decline was largely related to an increase in the working capital, compared to a decline in 2017. At year-end 2018, working capital as a percentage of turnover increased to 13.9% (2017: 11.4%), and remains within the targeted bandwidth of 12-15%. Net investments in tangible non-current assets came in at € 42.5 million in 2018 (2017: € 40.9 million). A major part of this was related to investments in production facilities. The investments in intangible non-current assets, mainly R&D, patents, licenses and software,



amounting to € 35.2 million, more or less remained equal (2017: € 35.1 million). We spent € 116.2 million on acquisitions (2017: € 5.8 million), the majority of which was related to the acquisition of Lakesight Technologies.

Solvency declined to 42.4% in 2018 (2017: 47.0%) due to an increase in the balance sheet total as a result of the dividend payment, acquisitions and investments. The net bank debt, calculated in accordance with the financial covenants, increased to € 326.6 million at year-end 2018, an increase of € 168.8 million compared to year-end 2017. The Net debt / EBITDA stood at 1.5, which means TKH was operating well within the financial ratios agreed with its banks.

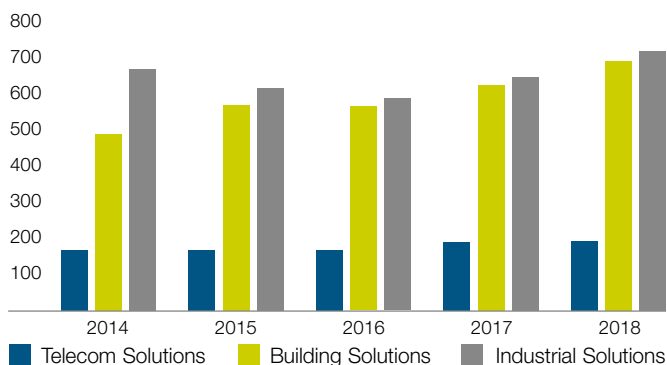
TKH had 6,533 employees (FTEs) at year-end 2018 (2017: 5,900). The company also had 496 (FTEs) temporary employees (2017: 522 FTEs).

## DIVIDEND PROPOSAL

At the Annual General Meeting of 6 May 2019, TKH will propose the payment of a dividend of € 1.40 per (depository receipt of a) share (2017: € 1.20). Based on the number of outstanding shares at year-end 2018, this results in a pay-out ratio of 48.6% of the net profit before amortization and one-off income and expenses attributable to shareholders and 54.2% of the net profit attributable to shareholders. TKH will propose the payment of a cash dividend to be charged to the reserves. The dividend will be payable on 13 May 2019.

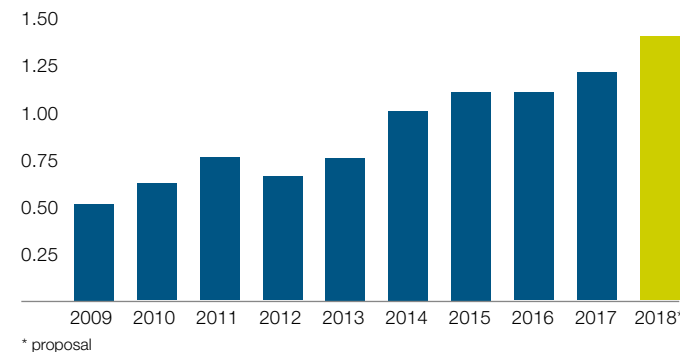
### TURNOVER PER BUSINESS SEGMENT

in million €



### DIVIDEND

in € per (depository receipt of) share



# DEVELOPMENTS PER BUSINESS SEGMENT

## TELECOM SOLUTIONS



Turnover in the Telecom Solutions segment was 1.6% higher at € 194.5 million. Organic turnover growth was 2.0%, while foreign currencies had a negative impact of 0.4% on turnover. The growth was realized mainly in the fibre network systems sub-segment.

EBITA was up € 2.2 million. The ROS improved to 14.5% from 13.5%.

### FIBRE NETWORK SYSTEMS

This sub-segment saw organic turnover growth of 2.6%. The growth in turnover in fibre optic network systems was realized primarily in Germany, France and Poland. The ROS improved in line with turnover and as a result of the high capacity utilization level, improved efficiency and increased demand for complex cable specifications with higher gross margins. While growth in China has slowed down, the global demand for optical fibre is still strong. Our growth was hampered in 2018 by the limited availability of preforms, a semi-finished product used to draw optical fibres. However, TKH will benefit in 2019 from the capacity expansion for

preforms at its joint venture partner. TKH is also further expanding its optical fibre production capacity. We expect this additional capacity to be fully operational in mid-2019.

### INDOOR TELECOM & COPPER NETWORKS

Turnover in this sub-segment saw organic growth of 1.0%, with growth driven primarily by the broadband connectivity portfolio for the Benelux. The gross margin increased due to an improved product mix.

#### KEY FIGURES TELECOM SOLUTIONS

in mln € (unless otherwise stated)

	2018	2017	change
Turnover	194.5	191.5	+1.6%
EBITA	28.1	25.9	+8.7%
ROS	14.5%	13.5%	

#### FIBRE NETWORK SYSTEMS

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

TURNOVER SHARE

7.7%

#### INDOOR TELECOM & COPPER NETWORKS

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

TURNOVER SHARE

4.3%

# BUILDING SOLUTIONS

Turnover at the Building Solutions segment was 10.6% higher at € 703.7. Organic growth came in at 9.7%. Acquisitions contributed 2.0% to this growth. Foreign currencies had a negative impact of 1.2% on turnover, while higher raw materials prices had a marginal impact of 0.1% on turnover.

EBITA before one-off expenses increased by 29.8% to € 67.8 million. Start-up costs normalized, with the exception of subsea cable production and the development of the airfield ground lighting portfolio. ROS therefore improved to 9.6% in 2018, from 8.2% in 2017.

## VISION & SECURITY SYSTEMS

Turnover in this sub-segment increased organically by 6.1%. The vertical growth markets Parking and Tunnel & Infra accounted for a significant share of this growth. Parking's turnover increased in the field of parking guidance systems, and TKH won a number of large contracts in this segment.

In Machine Vision, organic turnover growth was limited due to the reluctance to invest in new production lines among consumer electronics manufacturers. The 3D smart-sensor technology segment recorded growth on the back of newly introduced systems that are proving successful in the market. With a view to our growth outlook, we substantially

expanded our production capacity in the course of the year, which resulted in additional expenses in 2018.

Due to the program we initiated last year to increase the focus on our core activities and on improving returns, TKH terminated a number of activities in the security segment. This had a limited impact on the turnover in this segment.

## CONNECTIVITY SYSTEMS

Turnover in this sub-segment increased organically by 14.2%, driven by growth in a number of market segments. For instance, we saw continued growth in market volumes in the construction and infra sectors, as well as increased turnover in data cable systems.

In Tunnel & Infra, growth was driven by an increased investment demand for energy networks in connection with the need for alternative energy supplies. This had a positive effect on the demand for energy cables from network companies. We also recorded growth in airfield ground lighting ('AGL') systems. TKH successfully applied the new CEDD technology for AGL, which integrates various TKH technologies and competencies, in a number of projects last year.



Marine & Offshore recorded growth, partly due to the start-up of the new production facility for subsea cable systems. We also increased our market share in cable systems for the marine industry.

The costs of the CEDD/AGL and subsea activities are still ahead of the benefits.

## VISION & SECURITY SYSTEMS

vision technology based on 2D and 3D smart sensor and laser technology, systems for CCTV, video/audio analysis and detection, intercom, access control and registration, central control room integration, healthcare systems

TURNOVER SHARE

23.8%

## CONNECTIVITY SYSTEMS

specialty cable (systems) for marine, 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

19.3%

## KEY FIGURES BUILDING SOLUTIONS

in mln € (unless otherwise stated)

	2018	2017 <sup>1</sup>	change
Turnover	703.7	636.2	+10.6%
EBITA before one-off expenses <sup>2</sup>	67.8	52.3	+29.8%
ROS	9.6%	8.2%	

<sup>1</sup> The comparative figures for 2017 have been restated due to the retrospective application of IFRS 15 Revenue from contracts with customers.

<sup>2</sup> The one-off expenses in 2017 are related to restructuring costs of € 6.1 million.

# INDUSTRIAL SOLUTIONS

Turnover in the Industrial Solutions segment increased by 11.5% to € 732.6 million. Acquisitions contributed 0.1% to this growth. Foreign currencies had a negative impact of 0.1% on turnover. The on average higher raw material prices had a positive impact of 0.1% on turnover. Organic turnover growth came in at 11.4%.

EBITA increased by 21.2% as a result of higher turnover and production capacity utilization. The ROS improved to 14.4% (2017: 13.3%).

## CONNECTIVITY SYSTEMS

Organic turnover growth was 11.4% in this sub-segment. This growth is being strongly driven by growing demand for robot systems and automation trends in industrial production processes. Our cables and cable systems put us in an excellent position to respond to this demand, and this resulted in an increase in turnover. We also realized an increase in turnover in specialty cable systems in the medical industry.

Our investment in the new production facility for high-grade industrial cable systems in China progressed as planned and was taken into operation in the third quarter of 2018. In addition, we modernized and expanded the facility for

medical and industrial cable assemblies in Ukraine. Both investments contributed to the growth realized in 2018.

## MANUFACTURING SYSTEMS

Organic turnover growth increased 11.5% on the back of high order intake in 2017 and the first half of 2018, which raised engineering activity and production to a higher level. EBITA and ROS both improved, despite the continued high proportion of engineering for customers among the top-five tire manufacturers.

The 'best supplier' awards we received in the second half of the year from both Michelin and Pirelli is a confirmation of the outstanding quality of our organization and our position among the world's top-five tire manufacturers.

The order intake for the full year 2018 came in at € 334 million (2017: € 346 million). Delay in announced projects in amongst others the USA led to a slightly lower order intake in 2018 than in the year before. The share of the top-five tire manufacturers in order intake increased further. The order intake in China was at a low level and given the decline in capacity utilization in the tire manufacturing industry in that country, we do not expect this situation to change in the coming year.



At the end of 2018, TKH further increased the production capacity at its Polish production facility, to create more room for growth and flexibility at our production facilities, also with a view to international trade tariffs.

### KEY FIGURES INDUSTRIAL SOLUTIONS

in mln € (unless otherwise stated)

	2018	2017 <sup>1</sup>	change
Turnover	732.6	657.1	+11.5%
EBITA before one-off expenses <sup>2</sup>	105.7	87.2	+21.2%
ROS	14.4%	13.3%	

<sup>1</sup> The comparative figures for 2017 have been restated due to the retrospective application of IFRS 15 Revenue from contracts with customers.

<sup>2</sup> The one-off expenses in 2017 are related to restructuring costs of € 0.2 million.

### 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 systems

TURNOVER SHARE

26.6%



# ACQUISITIONS, INVESTMENTS AND DIVESTMENTS

In the case of acquisitions we focus on structurally healthy companies with a value of between € 10 million and € 50 million which are aligned with our four core technologies and associated vertical growth markets or which extend our geographical footprint.

## ACQUISITIONS

In January 2018, TKH acquired all of the shares of Akutron LLC ('Akutron'), which has its registered office in Kiev, Ukraine. Akutron manufactures medical and industrial cable assembly systems, and related products. The business is strengthening the production capacity of the TKH subsidiary, Ernst & Engbring, with specific competencies in the field of assembly. Akutron's activities are part of the TKH subsegment industrial connectivity systems within Industrial Solutions. The company achieves a turnover of approximately € 1 million with 60 FTEs.

In November 2018, TKH acquired all of the shares of Lakesight Technologies ('Lakesight'), a global manufacturer

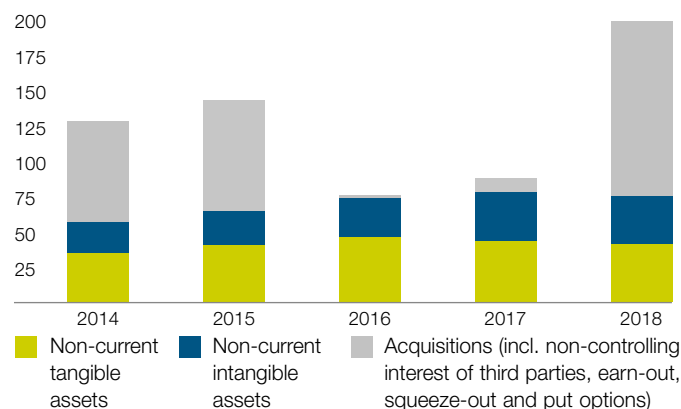
of innovative high-end vision technology for imaging systems with its head office in Germany. Lakesight consists of three operational entities, namely, Chromasens GmbH and Mikrotron GmbH in Germany and Tattile Srl in Italy. The business is active in the industrial and mobility markets. In the industrial market, Lakesight provides machine vision solutions for inspections, measurements and process control for the semiconductor, electronics, automotive, printing and food industries. In the mobility market, cameras and solutions are provided for the purposes of intelligent traffic systems. Lakesight's activities are part of the TKH subsegment vision and security systems within Building Solutions. With 169 employees (FTEs), Lakesight achieves an annual turnover of approximately € 45 million.



INTELLIGENT TRAFFIC SYSTEMS OF LAKESIGHT (TATTILE SRL)

## INVESTMENTS

in million €



At the end of December 2018, TKH acquired all of the shares of Ognios GmbH ('Ognios'), which has its registered office in Salzburg, Austria. Ognios is a start-up company which develops high-end, fully IP-based modular mission critical communication systems for the marine and offshore industries. The technology and solutions are complementary to the existing mission critical communication systems within TKH Group. Synergy benefits are achievable with the Commend group in relation to production and sales operations. Ognios' activities are part of the TKH subsegment vision and security systems within Building Solutions. The company has 19 FTEs.

## DIVESTMENTS

Because of our ongoing focus on our four core technologies and long-term value creation, during the year under review attention was again devoted to activities which are insufficiently in line with TKH's strategy as part of a strategic reorientation. This has led to the termination of some activities within the security segment. Those activities involve the distribution of commodity products without proprietary technology.

## INVESTMENTS IN TANGIBLE NON-CURRENT ASSETS

In 2018 net investments in tangible non-current assets totaled € 42.5 million (2017: € 40.9 million). Those investments were primarily injected into the TKH subsegments building and industrial connectivity systems, vision and security systems, fibre network systems and manufacturing systems.

A significant part of those investments involved an extension of building and production capacity, including:

- the extension of production capacity for 3D smart sensor technology (vision & security systems);
- the modernization and extension of the assembly facility in Ukraine (industrial connectivity systems);
- production capacity for high-grade industrial cable systems in China (industrial connectivity systems);
- the expansion of production capacity for tire manufacturing systems in Poland (manufacturing systems);
- the expansion of fibre-optic production capacity with an extension to 2019 (fibre network systems).

The depreciation of tangible non-current assets amounted to € 28.1 million in 2018 (2017: € 24.5 million).

#### INVESTMENTS IN INTANGIBLE NON-CURRENT ASSETS

In 2018 € 35.2 million was invested in intangible non-current assets (2017: € 35.1 million). The most important investments involved the development (or ongoing development) of our technologies for solutions for our vertical growth markets, as well as related patent fees. Amongst other things, they include new generations of tire manufacturing systems, our subsea portfolio and production technology, contactless energy and data distribution (CEDD), a medicine distribution system, a new generation platform for communication systems, and our 2D and 3D vision portfolio.

Expenditure for acquisitions amounted to € 116.2 million (2017: € 5.8 million). As a result of these acquisitions intangible non-current assets increased by € 156.8 million because of purchase price allocations for the acquisition of brand names, customer databases, intellectual property and goodwill paid (2017: € 4.6 million).

## MANAGEMENT BOARD



### MANAGEMENT BOARD TKH GROUP

*On the picture from left to right:*

Erik Velderman MBA  
Renate Dieperink MBA  
Alexander van der Lof MBA (Executive Board), *chairman*  
Elling de Lange MBA (Executive Board)  
Gertjan Sleeking  
Harm Voortman MSc (Executive Board)

### STAFF TKH GROUP

#### Financial Affairs

Gertjan Sleeking

#### Internal Audit

Derk Postma

#### Legal Affairs

Maarten Fonkert

#### Corporate Development

Erik Velderman MBA

#### Personnel & Organization

Elling de Lange MBA  
Renate Dieperink MBA

#### Company Secretary / CSR

Renate Dieperink MBA

# PERSONNEL AND ORGANIZATION

The quality of both the organization and its employees is a decisive factor in the success and growth of the TKH Group. We demand much from our employees, who have a clear idea about what is expected of them and how they can make an active contribution. In addition, it is our duty to be a good employer and to motivate and help our employees as best 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, which makes it possible for us to respond to market opportunities and customer requirements quickly and alertly.

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**TKH has a culture as part of which entrepreneurship is encouraged.**

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Given its decentralized organizational structure, responsibilities are assigned as far down as possible in the organization using a thorough control and monitoring system. Human resources developments and responsibilities are also delegated to local management, which implements HR matters within the confines of guidelines defined by TKH. As a result, our subsidiaries are able to adjust rapidly to changing local or other circumstances, so as to be able to adopt appropriate organizational measures in an adequate manner.

## **CULTURE AND INTEGRITY**

TKH has a culture as part of which entrepreneurship is encouraged. This entails pursuing an active approach to the market together with an in-depth analysis of opportunities and risks while adopting a restrained approach to and accepting risks. The Executive Board and management lead by example and provide guidance on the proper standards and values within the organization. An important starting point underlying TKH's management structure and its subsidiaries lies in ensuring that there is a good balance of personalities, expertise and skills in the company's senior ranks. 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 highly values the integrity of its employees' conduct. This approach is predicated upon openness and transparency. An open professional attitude is encouraged by, amongst other things, the exemplary conduct of the Executive Board and the management teams and managerial staff of the subsidiaries and other key positions. A clear code of conduct, operational control and a zero-tolerance policy in relation to matters of principle, such as fraud, bribery and corruption, ensure that work is carried out in accordance with appropriate principles and arrangements. Behaviour has an impact on TKH's quality and results. Because of our open culture, our people feel involved in the company and call each other to account for any undesirable or unacceptable



Executive Board and is backed up by close monitoring of agreed objectives using a sophisticated KPI dashboard. This provides clear insight into the implementation of arrangements. The KPI dashboard is broken down into weekly, monthly and quarterly information and presents a clear overview of the relevant KPIs over lengthy periods. An effective reference framework that includes budgetary and historic information, helps us to quickly and adequately detect derogations from the agreements. Trends and derogations in both a favourable and unfavourable sense may be discussed at length in order to get to the bottom of developments and to make operational adjustments where necessary. This modus operandi is encouraged from the top down to ensure that it permeates all parts of the company.

Every quarter or more frequently on a monthly or weekly basis if required, discussions are held with the management teams of the subsidiaries concerning a strategic scorecard with the aid of “highlights” and “low lights” in the case of each solutions segment, as well as any related short and medium-term action points. In this way it is possible to obtain a clear understanding of markets, financial, commercial and sustainability developments, so as to use them to secure the timely identification of potential risks to be able to adopt any organizational measures that may be required. Reports provide both quantitative and qualitative information, and are structured along the lines stipulated by TKH. This provides a stimulus for transparent reporting on both favourable and unfavourable matters.

### MANAGING THE ORGANIZATION

Based on its market approach, TKH has defined seven vertical growth markets in which it has forecast the potential for the achievement of above-average growth. A member of the Executive Board is responsible for the achievement of 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

behaviour in accordance with the standards and values that we strive for. Collaboration and the conduct of the companies’ management teams are also closely monitored. Employee and customer satisfaction surveys are regularly used to assess where there is room for improvement within the companies. Management is encouraged to maintain contact with employees at every level of the company and with its external stakeholders. The Executive Board and also the cluster management teams meet on the premises of the subsidiaries as frequently as possible, providing employees with an opportunity to come into contact with the Executive Board by giving presentations, attending project meetings or arranging guided tours.

### RISK MANAGEMENT

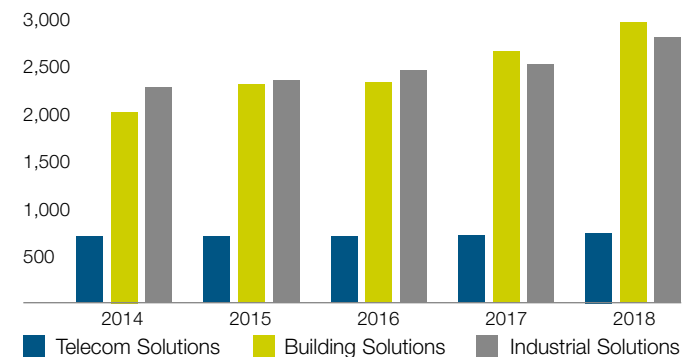
Business risks are limited by a tight and clear delineation of responsibilities and powers. The organization’s open, transparent culture, part of which entails that the organization is open to criticism, is a condition for appropriately dealing with responsibilities and powers, and for identifying risks in an early stage. Amongst other things, an appropriate risk management model is utilized to identify potential risks, so as to ensure that they may be anticipated appropriately. Risk management is firmly embedded in our management model. It is characterized by short lines of communication with the

promote cohesion between the companies, they have been arranged in clusters under a single manager who is responsible for them. The result is higher efficiency in managing the organization, since the clusters jointly organize 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 in the vertical growth markets. The companies were clustered further during the year under review.

The Management Board supports the Executive Board in the operational implementation of its strategy. In addition to the three members of the Executive Board, this Management Board consists of the managers of TKH’s Finance & Control and Corporate Development departments, and the TKH Company Secretary. The Executive Board is responsible for the decisions taken by the Management Board and bears ultimate responsibility as provided for in the company’s articles of association.

In addition, TKH has a Strategic Sounding Board consisting of managers bearing ultimate responsibility in its subsidiaries, in which its technologies and vertical growth markets are

**NUMBER OF EMPLOYEES PER BUSINESS SEGMENT**  
in FTE





represented. In this Board TKH's strategy is assessed and the implementation of this strategy is discussed. The members of the Strategic Sounding Board serve as a good sounding board for the discussion of technological, portfolio and business developments within TKH Group together with the Management Board. This platform also provides an opportunity to involve young talent in the development and execution of strategy at an early stage, and by doing so, also to flesh out management development.

### TALENT DEVELOPMENT

Talent and management development are acquiring a greater strategic value. We devote a great deal of attention to recruiting, developing and retaining talent. As far as possible, the skills and background of our employees are brought into line with the strategic developments within TKH, with the result that we also devote a good deal of attention to education and training. At the same time we are alert to the need to retain critical skills in order to secure our strategic agenda in relation to technological developments and innovations.

Through our management development program we involve young talent in developments within TKH Group and prepare them for the next step in their career. Each year, we offer 25 candidates a one-year management development program, which we present in collaboration with Nyenrode Business University. Candidates are put forward by the management teams of our subsidiaries on the basis of predetermined selection criteria. The Executive Board maintains close contact with the management development program candidates and takes part in various joint sessions. Over the years, this has created a pool of potential people from whom we have been able to fill key positions within our group.

### EMPLOYEE REPRESENTATION

The interests of the employees are promoted at the level of the subsidiaries by the local Works Councils, and at the TKH group level by the Central Works Council. These councils



maintain employee representation structures under the terms of the Works Councils Act [Wet op de Ondernemingsraden]. During the year under review the Executive Board and the Central Works Council held good, close consultations with each other. Some of the matters clarified included the company's results, organizational developments, strategy, budget, investments and the TKH annual report. Special matters which were dealt with during the year under review included the reappointment of a member of the Supervisory Board, the appointment of a member of the Executive Board, pension developments and the acquisition of Lakesight Technologies. The Central Works Council dealt with current topics pertaining to employee representation during study days. The CEO of the Executive Board attended part of those study days at the invitation of the Central Works Council. One meeting of the Central Works Council was attended by a delegation from the Supervisory Board. During that meeting discussions were held about TKH's strategy and operational matters affecting TKH and its subsidiaries.

To strengthen ties among the various Works Councils and other employees representative bodies in the Dutch subsidiaries, TKH organizes an annual Works Council Day for all members of the Works Councils and employee

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## CENTRAL WORKS COUNCIL

Ultimo 2018, the Central Works Council consists of the following members:

Pepijn Hofman (EKB), *chairman*  
Gerard Roolvink (TKF), *secretary*  
Maurice Fliescher (Intronics)  
Han ten Have (VMI)  
Olaf Karsten (VMI)  
Har Ritzen (Eldra)  
Louis Scholten (TKF)

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representatives. This day is always organized on the premises of one of the subsidiaries. The Executive Board holds a presentation on developments within TKH. In addition, current issues are dealt with and the Managing Director of the subsidiary on whose premises the day is being held gives a talk about the company, which is followed by a guided tour. In addition, time is set aside for informal discussion, so as to be able to share information with each other in this way as well. In the year under review, the Works Council Day was held at VMI Holland BV in Epe. TKH believes that consultations with the Central and other Works Councils are important and attaches great value to an open dialogue. We believe that adopting an active approach to employee representation helps us stay alert.

# CORPORATE SOCIAL RESPONSIBILITY

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 our organization, and its impact on the environment and our reputation.

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**As a matter of strategic priority, sustainability is firmly embedded in our day-to-day operations.**

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## CSR STRATEGY

As a matter of strategic priority, sustainability is firmly embedded in our day-to-day operations, and CSR initiatives are increasingly being integrated into our organization. Our CSR policy provides a framework for our short- and medium-term plans without losing sight of company interests. CSR is fully incorporated into our business operations so that, when we implement our strategy and achieve our objectives, we consider our social responsibilities in relation to all relevant stakeholders. TKH is present in an increasing number of value chains as a purchaser, producer, supplier or business partner. In all of these roles, TKH tries to guarantee uniformity with regard to its CSR principles.

We report in line with the international guidelines of Global Reporting Initiatives (GRI 'core') and endorse the OECD guidelines for international business in the field of corporate social responsibility. We apply the IIRC (International Integrated Reporting Council) value-creation model to show how value is created within the TKH group in the long term. TKH links its business activities to the Sustainable Development Goals (SDGs) in order to strengthen cooperation with other organizations and stakeholders. We have designated four SDGs to which we believe we can make the greatest contribution.

We have defined four areas with focused programs for achieving sustainability results:

- People: the social aspect of business.
- Planet: concern for the environment and climate.
- Profit: the economic aspect of business.
- Positioning: safeguarding our good reputation.

The Executive Board is intensively involved in the CSR strategy and implementation of the CSR policy. Interactions with our subsidiaries ensure that best practices are shared internally, so that we can continuously improve our performance. Our subsidiaries also have direct contact with strategic stakeholders so that they can provide us with input for further refining our sustainability ambitions.

## TRENDS

In our business operations, we focus on the external and internal environmental factors, analyzing trends that can affect our activities and operations. We then make an assessment of the opportunities and threats and see how we can provide added value for our stakeholders and society in general. The following table shows our added value in the field of CSR for each trend and how we steer this internally by setting concrete goals.

## TRENDS IN CSR

TREND THEME	OUR ADDED VALUE/OPPORTUNITIES	TARGETS	POSSIBLE THREATS	CSR SUB-AREA	SDG
Technology developments — need to innovate faster and to maintain or improve competitiveness.	Targeted acquisition policy - Innovative capability and investment in R&D.	Targeted acquisition policy with good alignment between technologies - financial objectives - R&D Roadmap.	Acquired companies are not successfully integrated.	Profit	
Rise of robotics, autonomous transport, artificial intelligence and machine learning.	Balanced and sustainable product portfolio.	Innovation target.	Speed of competitors' technological developments with more perspective. Risks of cybercrime.	Positioning	
Growing demand for efficiency and providing integrated solutions.	Innovative capability and investment in R&D. Knowledge of the market and customers' wishes.	Customer satisfaction and quick handling of complaints.	Reputational damage because we do not sufficiently satisfy customers' expectations, resulting in underperformance of result and turnover development.	Positioning	
Global populations are generally older, wealthier, increasingly live in urban areas, and are more and more connected through technology.	Core technologies are combined into total solutions and tailored to efficiency, comfort and safety.	Expected growth in the vertical growth markets for the next 3-5 years from € 300 to € 500 million.	Geopolitical, global situation.	Profit	
As a result of digitization, jobs will disappear, but many new jobs will also be created.	Interesting employer with a focus on entrepreneurship and development opportunities, as well as good employment practices, ethics and integrity.	Education and training. Performance and assessment interview. Employee satisfaction. Integrity/general organizational principles.	Inability to retain qualified personnel. Undesirable or unethical behaviour on the part of employees that leads to reputational damage.	People	
Work and private life will be integrated in new lifestyles.	The size and nature of the company creates opportunities for a broad working group.	General organizational principles. Sustainable employability. Attention for people with restricted opportunities on the labour market. A safe and healthy working environment.	No or insufficient match between the wishes and requirements of employer and employees, which may lead to conflicts.	People	
Global agreements on climate - energy systems from renewable, sustainable energy sources.	A product portfolio that responds to sustainability issues such as renewable energy sources.	Innovation target, R&D roadmap. Active participation in chain initiatives.	Dependence on subsidies for projects. Complex, large-scale projects.	Profit Positioning	
Globalization in the value chain. Increase in chain cooperation on sustainability issues.	Knowledge of the operation and the markets in which we operate. Active value chain approach.	Active participation in value chain initiatives. Code of supply and assessments at suppliers.	Dependence upon customers and suppliers. Non-compliance with legislation and regulations by chain partners. Image or reputational damage of value chain partners.	Positioning	
Resources are becoming depleted. Fossil fuels are becoming scarce. Attention to design in order to recover high-quality raw materials.	Waste reduction and recycling. Energy and CO <sub>2</sub> reduction program. Circular economy.	Targets for reducing energy consumption, CO <sub>2</sub> emissions and waste. Recycling waste.	Important raw materials are unavailable or available in limited quantities. Commodity price volatility.	Planet	

## STAKEHOLDER DIALOGUES

TKH regularly enters into dialogue with a various group of stakeholders on topical and social issues. The varied backgrounds and the knowledge of the stakeholders about TKH and the environment in which we operate is a good starting point for conducting the dialogue. It provides useful insights into stakeholders' interpretations of current topics that affect TKH. We also use the dialogues to broaden our insights into the needs and expectations of the stakeholders. In addition, stakeholder engagement helps us to make better use of opportunities and identify risks in a timely manner. A dialogue is also used to clearly explain specific themes in order to increase support for them or, in certain cases, to create understanding when a theme is given less priority in our business operations. The results of the dialogues are also included in the review of the materiality matrix. Among other things, the dialogues in the year under review have led that we give some of the themes a higher relevance. These include the themes of diversity in the workforce and IT Security & Privacy.

The willingness of stakeholders to enter into dialogue with us is something we value and, in our opinion, underlines the engagement of our stakeholders.

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**We use the dialogues to broaden our insights into the needs and expectations of the stakeholders.**

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THEME	DIALOGUE IN 2018
<b>BUSINESS DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>We had discussions with suppliers and customers in order to jointly contribute to sustainability issues including high-quality recycle and circular cable types. We are deploying our knowledge of the market and technologies that support or improve our customers' business, and of sustainable product composition.</li> <li>The SDGs have been a recurring topic of conversation in talks with customers and suppliers.</li> </ul>
<b>GOOD EMPLOYMENT PRACTICES</b>	<ul style="list-style-type: none"> <li>TKH further highlighted vitality programs at subsidiaries that focus on the health and vitality of employees. A healthy and safe working environment was a recurring theme during employee meetings and 1-on-1 conversations with employees. We believe it is important that employees can share their concerns and contribute ideas for improvements.</li> <li>During the Works Council Day in October 2018, topical themes were shared with local Works Councils, including developments in the field of sustainable employability and Artificial Intelligence. The Works Council Day is also a unique opportunity for Works Councils to exchange knowledge and experience between each other.</li> <li>We have provided presentations and guided tours for schoolchildren and students to introduce them to our technologies and activities, and to enthuse them about TKH as a possible future employer.</li> <li>In the year under review, TKH brought the SDGs to the attention of the employees in order to create awareness of the theme.</li> <li>The new General Data Protection Regulation ('Privacy Act') was explained to a broad group of employees in separate sessions and workshops. Practical situations were discussed as well as the roadmap for implementing the Privacy Act.</li> </ul>
<b>INVESTOR RELATIONS</b>	<ul style="list-style-type: none"> <li>In 2018, the CEO and CFO took part in road shows and conferences in which talks were held with (potential) investors. In addition to financial and strategic topics, discussions increasingly focus on sustainability issues.</li> <li>During the publication of the annual and interim figures, analyst meetings were held that could also be followed via webcasts.</li> </ul>
<b>VALUE CHAIN INITIATIVES</b>	<ul style="list-style-type: none"> <li>We once again participated in sector initiatives aimed at the circular economy and value chain innovation programs. One of these was the innovation program 'Plastic and rubber in the underground infrastructure', in which we committed ourselves to the ambition for 100% circular use of materials in the underground infrastructure by 2040.</li> <li>As a supplier of cable systems, we are a consulting partner for Dutch infrastructure companies that focus on the 'Fair Infra' mission statement. The aim is to accelerate the transition to sustainable energy.</li> <li>We participate in steering and working groups of trade organizations that serve as platforms for monitoring developments in technologies and the market.</li> <li>As a participant in regional industrial platforms and student network groups, we focus on regional developments in employment and strengthening the economic position.</li> <li>Last year, we again discussed compliance with the guidelines set out in our code of supply with suppliers. In addition to allowing us insight into developments in the value chain, it also provides us with timely insight into potential risks.</li> <li>In the reporting year, discussions with chain partners were used to explain the SDGs and explore opportunities for joint initiatives.</li> </ul>
<b>REVIEW OF CURRENT SUSTAINABILITY THEMES AND POLICY</b>	<ul style="list-style-type: none"> <li>In 2018, TKH participated in several sustainability benchmarks such as the Carbon Disclosure Project (CDP), Vigeo and MSCI. Through participation we try to gain insight into our sustainability performance vis-à-vis our peers, so that we can further improve it.</li> <li>We conducted stakeholder dialogues in the framework of the CSR performance ladder about among others climate change and living wage.</li> </ul>

## DILEMMAS

Sustainability initiatives are increasingly being developed by various target groups that require an increased contribution from industry. We take responsibility in this, but we continue to relate it to our business operations so that we can also make a material contribution to the sustainability initiatives and thus create the necessary support. In some cases, this leads to conscious choices to not implement themes or not collaborate, even though we are asked to do so.

In certain markets, 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 price axis.

Reducing our energy consumption calls for thorough co-ordination of our manufacturing, which in turn is dictated by current demand. Over the past few years, we have concentrated a lot on energy reduction, which has resulted in the successful implementation of many saving plans. It is therefore a growing challenge to define new reduction plans and make major savings. Furthermore, the expansion of production facilities has resulted in a further increase in energy consumption compared to the output produced as this return that these investments will yield cannot yet be fully compared with the consumption due to learning curve effects.

We are increasingly asked to provide information on external information platforms and portals. Due to price-sensitive (inside) information and competition-sensitive information, it is not always possible to honour all requests. We take a selective approach to lending our cooperation and make considered choices regarding the information provided.

In the case of external ratings on sustainability, TKH is often rated by peers in the production/manufacturing industry. TKH's activities are increasingly focused on in-house technology development, in which the software component plays an increasingly important part. For this reason, the ratings give a distorted picture and call for additional communication by our organization.

## CSR OBJECTIVES

The materiality matrix (page 27) shows the most material topics for sustainable business operations at TKH, which are then used to define our objectives. The GRI guidelines, among others, were used to define the KPIs. We monitor our objectives by means of a dashboard in our internal reporting system and assess the results quarterly at meetings with our subsidiaries. CSR is also part of the annual budgeting process.

In addition to the themes in the materiality matrix, some SDGs have been defined on which we believe we can have the greatest impact, so that we can directly contribute to these. These SDGs focus on affordable and clean energy (SDG 7), decent work and economic growth (SDG 8), industry, innovation and infrastructure (SDG 9) and responsible consumption and production (SDG 12). We have linked existing goals to these SDGs in order to ensure that there is a structural focus on the themes.

The following table shows the TKH objectives with the KPIs used, as well as the results achieved.

## CSR DEVELOPMENTS IN 2018

The following sections explain the initiatives taken in the field of sustainable business in the year under review, as well as the results achieved. We have done this on the basis of our 4 Ps: People, Planet, Profit and Positioning. The report is aligned with the new GRI standard ('core').









## SUSTAINABLE PRODUCT DEVELOPMENT OF ENERGY CABLES

Alliander, one of the largest energy network companies in the Netherlands, and TKF have made agreements on the environmental and social impact of the raw materials, services and products used. The aim is to limit the use of raw materials as much as possible by reusing materials and purchasing technical materials as sustainably as possible. The raw materials that are used are recycled so that nothing is lost. A raw materials passport has been developed so that it is clear from which materials the cable is made. This is a first major step in jointly developing sustainable energy products and a circular economy.



# RESULTS CSR 2018

	THEME INCLUDING MATRIX NO.	KPIs	TARGET	2018	COMPARED WITH TARGET	2017
<b>PEOPLE</b>  	Sustainable employability (8)	% employees with performance interview.	At least 90% of workforce.	81.2%	●	83.4%
	Education and training (6)	Number of hours spent on education and training per FTE.	At least 16 hours per year per FTE.	24 hours	●	22 hours
	Health and safety (9)	Number of industrial accidents resulting in at least 1 day of absence.	Annual reduction in accidents of at least 10%.	-7.6%	●	-33.3%
		Total sickness leave compared with number of FTE.	< 4.0%.	3.47%	●	3.38%
	Good employment practices (6,8,9,10)	Employee-satisfaction survey.	At least corresponds to benchmark (7.04).	7.2	●	7.2
	Integrity and general organizational principles (15)	Number of employees who have signed TKH's code of conduct.	100%.	96.1%	●	97.7%
		Number of breaches of the code of conduct.	0 breaches.	0	●	0
Diversity in workforce (10)	Number of employees with a disability and/or restricted opportunities on the labour market.	At least maintain current number of employees.	109	●	105	
<b>PLANET</b>   	CO <sub>2</sub> and energy reduction (12)	Total energy consumption in Kwh/turnover.	5% reduction in 2020 compared to the benchmark year 2015.*	2017: -3.0% 2015: -3.0%	n/a	2016: -3.3% 2015: +0.8%
		Carbon footprint (CO <sub>2</sub> emissions).	2.5% reduction in 2020 compared to the benchmark year 2015.*	2017: -4.4% 2015: -2.9%	n/a	2016: -2.8% 2015: +0.9%
		Vehicle fleet: CO <sub>2</sub> norm, expressed in grams/km.	Average CO <sub>2</sub> norm for lease cars in 2020: < 95 grams/km.*	90.1 grams/km	●	93.6 grams/km
	Raw material consumption and waste reduction (13)	Total waste for most relevant raw materials in relation to total material consumption.**	Maximum of 5% of annual material consumption of the most relevant raw materials.*	-4.9%**	●	-5.0%
		Recycling percentage for most relevant raw materials.	At least 50%.*	79.0%	●	71.4%
<b>PROFIT</b>  	Financial targets (1)	Net interest-bearing debt / EBITDA (debt leverage ratio).	< 2.0.	1.5	●	0.9
		Return On Sales (ROS).	12-13% medium-term.	11.3%	●	10.1%
		Return On Capital Employed (ROCE).	21-23% medium-term.	21.3%	●	19.7%
		Solvency.	> 35%.	42.4%	●	47.0%
<b>POSITIONING</b>   	Innovation and technology (2)	Portfolio at an early stage of the product lifecycle.	At least 15% turnover from innovations introduced in two previous years.	20.8%	●	22,2%
		Customer Satisfaction (16)	Customer satisfaction survey.	Average score above benchmark (7.8).	7.9	●
	General organizational principles (15)	Total percentage of product-related complaints resolved within five working days.	> 60%.	80%	●	80%
		Number of complaints related to requirements concerning the environment and surroundings.	0 complaints.	3	●	4
	Socially Responsible Procurement (7)	Percentage of strategic suppliers (purchase volume from €1 million) who have signed the code of supply.	100%.	84%	●	80%
		Percentage of assessments conducted with strategic suppliers.	Within two years of signing code of supply.	82%	●	78%
Charity (11)	Amount of sponsoring as a percentage of net profits before non-recurring revenues and expenses.	0.2% - 1.0% of net profits before non-recurring revenues and expenses.	0.4%	●	0.4%	

\* Scope: TKH scope segregated in respect of nature of business

\*\* Excluding learning curve effects.

● Goal achieved ● Goal not achieved for short term



# PEOPLE - CONSEQUENCES OF OUR BUSINESS OPERATIONS FOR OUR WORKFORCE

TKH's strategy, and the ensuing challenging but realistic targets, are based on a market-driven, innovative approach. This calls for a qualified workforce. Various initiatives are being developed to keep our employees interested and committed, and to attract people to TKH. We aim to have an open business culture, in which employees are acknowledged and heard. In addition to a friendly working culture, we offer employees a safe and healthy working environment. Good employer ship is central to us, among other things, to ensure that we are an attractive employer. This, combined with an innovative and enterprising culture, offers us a good starting position to quickly fill vacancies with people with the right profile. We pay a lot of attention to this, also in view of the increasing scarcity of qualified technical people, where it will become more challenging in the coming years to fill in such functions. We will continue to prepare ourselves for this with high priority.

At year-end 2018, the number of employees (in FTEs) was 6,533 (2017: 5,900 FTEs). The increase is mainly due to acquisitions in 2018, investment in the production facility for specialty cable systems in China as well as expansion of production, R&D and the commercial organization. At year-end 2018, there were 496 (FTEs) temporary employees (2017: 522 FTEs).

## WORKFORCE AND REMUNERATION STRUCTURE

TKH is an international group of companies with a workforce that consists of many nationalities. In such an international environment, we take a broad view of diversity. TKH operates a strict policy of equal treatment for all employees, regardless of race, nationality, ethnic background, age, religion, gender, sexual orientation or disability.

TKH has a balanced distribution of age ranges. 73% of our employees are under 50 years of age. More than 56% of the total number of employees falls into the age group 30 to 50 years. This age structure means that positions at junior, middle and senior level are well represented. The current age structure also leads to manageable employee changes due to natural wastage and retirement. In 2018, 17% left the organization while 27% joined the organization (2017: 14% and 21% respectively).

We make no distinction between the basic salaries of men and women and apply market-rate pay, constantly striving for a balance between costs and market conformity. In addition to a fixed basic salary, the remuneration structure may include incentives such as a profit-sharing scheme, performance-dependent bonuses, an equity option scheme or share-based remuneration for senior management. There may be differences between countries depending on local market practice and the tax and social security structure. We have a remuneration policy based on the requirements of the job, and the experience and competencies of the individual.



For Dutch employees, we adhere to the social conditions of employment as stated in a collective labour agreement applicable to the sector. 79% of Dutch employees are covered by a collective labour agreement. Agreement-related rules are observed in those subsidiaries where there is no collective agreement. We apply a similar policy for foreign subsidiaries, in line with local laws and regulations. TKH ensures that such schemes are correctly drafted and observed, particularly as regards periods of notice, restraint-of-trade clauses and profit-sharing arrangements, and that the statutory notice periods and other provisions are complied with.

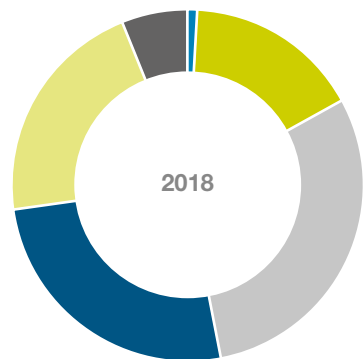
The principle of a living wage in the United Nations Universal Declaration of Human Rights is endorsed by TKH, including the view that everyone who works has the right to fair and favourable remuneration. In the discussions with our suppliers, we have identified a living wage as one of the themes during the assessments and reviews under the code of supply. In the case of acquisition opportunities, the salary structure of the company to be acquired is one of the subjects examined during the due diligence process.

## WORKFORCE RATIO MEN-WOMEN

in %

	2018		2017	
	Men	Women	Men	Women
Total workforce	74	26	74	26
Newly appointed	68	32	70	30
Departures	64	36	65	35

**EMPLOYEES CLASSIFIED ACCORDING TO AGE** in %



	2018	2017
< 20 years	1	1
20 - 29 years	16	16
30 - 39 years	30	30
40 - 49 years	26	26
50 - 59 years	21	21
59 >	6	6

**DIVERSITY**

The diversity policy at TKH focuses on a variety of skills, competences and nationalities, including a mix of men and women as well as a balanced distribution of ages. By ensuring that various aspects of diversity are represented in our staff, we simultaneously profit from a variety of competences, which, among other things, enhances the objectivity and dynamism of business operations. However, competences and experience remain the main criteria for selecting the right candidate.

In order to bring diversity to people’s attention in the organization, specific programs have been designated with different approaches to better embed this in the organization.

We want to make an extra effort to balance gender diversity

within the TKH organization. At the end of 2018, 26% of the workforce consisted of women. The nature of our work is largely technical. Together with the labour market supply, this is the main reason for the present distribution of male and female employees. However, we do see women increasingly choosing technical professions so that we can more specifically select and recruit women for technical positions within our organization. In this context, we also participated in ‘Girlsday’, a national initiative to introduce girls to science, technology and ICT at an early age.

We will also work to achieve a more balanced gender diversity in middle and senior management. This group plays a key role in the strategic development of TKH Group and acts as a sounding board for top management at the subsidiaries and the Executive Board. Moreover, this group is relevant in the context of succession planning. The managers of our subsidiaries are responsible for improving the gender mix within their organizations. The subject is on the agenda for the quarterly discussions between the Executive Board and the managers of the subsidiaries in order to gain more insight at the subsidiary level into the division between positions filled by male and female employees, so that this theme is steered by the highest management body.

Part of our diversity policy is that in our appointments policy, we are committed to providing an appropriate working environment for people with disabilities. We fit out workstations and remove limitations wherever possible. For people with restricted opportunities on the labour market, we create a working environment through job carving. In this, tasks are taken from one or more jobs and combined into a new job. This group of employees is supervised by an external job coach while the day-to-day management of the group is performed by a manager in the organization. We create work experience opportunities for the long-term unemployed or people returning to the labour market. At year-end 2018, there were a total of 109 people with

restricted opportunities on the labor market working in our organization (2017: 105). We have set ourselves the target of at least keeping the number of people working in the organization who have a disability or restricted access to the labour market at the current level. In addition, people from sheltered employment services are deployed at subsidiaries to perform repetitive work.

**TRAINING, KNOWLEDGE DEVELOPMENT AND KNOWLEDGE SHARING**

Our employees are encouraged to develop in the direction they aspire to. Education and training are an indispensable part of maintaining our knowledge level. We make training budgets available to further develop our employees’ skills and to broaden their employability. We organize in-company training with the support of external professionals so that this matches normal practice at TKH as closely as possible. New employees follow introductory programs including product training. The funds devoted to external training in 2018 amounted to € 2.9 million (2017: € 2.8 million). Expressed in hours, our employees spent an average of 24 hours on education and training in 2018 (2017: 22 hours), while we had set a goal of at least 16 hours per FTE. The target was therefore comfortably achieved.

We encourage a major part of learning ability to be developed through the work itself and through exchange of knowledge between our subsidiaries. In the year under review, we held workshops and knowledge meetings on financial topics and on current topics such as cyber risks and European privacy legislation (‘GDPR’). In addition, internal education programs are offered at subsidiary level to expand the technical expertise of employees. We think it is important that our subsidiaries can learn from each other and we select individual subsidiaries or clusters of subsidiaries as a benchmark for the entire group. Every year, the best performing TKH company receives an award. The criteria for nomination include the overall financial performance, the innovative capacity of the company, the entrepreneurship



## COMMITTED AND LOYAL WORKFORCE

Through years of partnership with regional sheltered employment facilities, employees who would otherwise have had difficulty in finding employment have been working at various TKH subsidiaries. By splitting work, it has become possible for us to supplement our workforce in a good and socially responsible manner. These employees work in internal departments, in the warehouse and in assembly. This group of employees is a good addition to our workforce and are very committed, motivated and exceptionally loyal.

shown and general business developments.

Ernst & Engbring (E&E) received this TKH award in the year under review. E&E has been showing good development in turnover and results for years. Moreover, it has shown a high degree of entrepreneurship. This was reflected, among other things, in the successful acquisition of Akutron, which has brought with it specific competences in the field of fitting highly specialty cables in medical equipment. In addition, a completely new manufacturing site for specialty cable systems for the robot industry was built and became operational in China within six months.

The TKH strategy and technological and business developments in the vertical growth markets were discussed at the annual international management conference for board members and strategic management. Also discussed were developments regarding corporate social responsibility, sustainable employability and general developments in the field of artificial intelligence (AI) followed by demonstrations of TKH solutions with AI.

A Management Development (MD) Program for young TKH managers with growth potential was established in cooperation with Nyenrode Business University in Breukelen (Netherlands) a few years ago. The program provides insight into the skills of the participants, who can potentially qualify for promotion to a managerial or key position in our organization. In the year under review, some senior management posts were also filled through internal promotion or job rotation. This included former participants in the MD program.

In its search for new talent, TKH maintains close contact with business schools and universities. We stay in contact with educational institutes that provide job-specific or management training courses. We offer work placements, graduation projects and minors in order to attract potential talent at an early stage. In addition, we use targeted programs to attract more students with limited or lower education - such as pupils on the training-on-the-job pathway ('Beroepsbegeleidende leerweg') - in order to give

them an opportunity to improve their skills and qualities in practice and interest them in a possible job in our organization. When recruiting external candidates, we increasingly use referral recruitment, in which we ask employees to propose new colleagues. With this type of recruitment, the chance of a match is high because our employees can make a good assessment of whether a nominee is suitable for the position and fits the organization.

### SUSTAINABLE EMPLOYABILITY, HEALTH AND SAFETY

We believe it is important that our employees can work in a healthy, vital, competent and productive way and to ensure this we have implemented sustainable employability as a program within our organization. We provide resources that can be used to promote the sustainable employability of employees. This includes education and training so that employees can pursue their ambitions. Our vitality program helps our employees to increase their vitality. Employees can have their health checked by an independent health institute. The results of the check are discussed between the employee and the specialists and, if desired, personal advice can be given on how to deal with health and lifestyle. In addition to satisfied and motivated employees, sustainable





employability aims at reducing absenteeism further and retaining knowledge longer in our organization. Sustainable employability focuses on all age categories in our organization. Through a mentoring program, we match experienced employees and junior employees in order to share professional knowledge while stimulating career development and personal development. For the experienced employee, this is a great way to exchange knowledge and experience and to benefit from the fresh perspective of a young colleague.

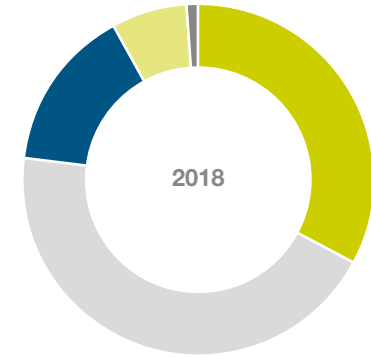
**We believe it is important that our employees can work in a healthy, vital, competent and productive way.**

It is also our duty to provide our employees and everyone involved in our organization with a healthy and safe working environment. We pay a lot of attention to the prevention of industrial accidents and encourage a professional safety culture. We do this by being transparent about accidents and near-accidents so that employees are more alert to risky situations and can react more rapidly. The manufacturing companies provide information on safety within the organization and clear work instructions regarding machinery safety are available. Strict measures are taken to ensure that requirements such as the mandatory wearing of safety shoes and protective clothing are complied with. We also encourage employees to draw each other's attention to situations that could lead to dangerous incidents. The manufacturing companies are certified for the health & safety management system OHSAS 18001, by which health & safety processes are embedded in the organization.

Attention to safety has resulted in the number of registered industrial accidents falling to 61 in 2018 (2017: 66), despite an increase in the number of employees in manufacturing due to an expansion of our production capacity. This reduction in the number of accidents reflects the maturity of the topic in our organization.

The absenteeism rate was 3.47% and is therefore slightly above last year's level (2017: 3.38%), but still below the target of maximum 4.0%. The higher absenteeism is caused by long periods of sick leave. To reduce absenteeism, among the measures we have introduced is the vitality program in which employees can participate on a voluntary basis. Sick leave management is primarily the responsibility of the line manager of the sick employee. During the period of sick leave, the manager maintains frequent contact with the employee concerned. Employees with health problems are immediately referred to the relevant occupational health and safety doctor or specialist. As a result, the employee is assisted more quickly. In addition, we offer company

**GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES in %**



	2018	2017
Netherlands	33	35
Europe (other)	44	41
Asia	15	16
North America	7	7
Other	1	1

physiotherapy in order to prevent absenteeism. We also optimize working conditions by using workplace scans. We organize ergonomic training sessions for employees whose work involves physical strain, with a potential risk of physical injury.

The privacy legislation introduced in May 2018 also means that the protection of privacy prevails over the possibility of discussing the nature of the absenteeism and possible



supporting actions.

### PERFORMANCE INTERVIEWS

Each year, the line manager and employee discuss the employee's performance and (career) development in a performance interview. In this way, we can keep an eye on the development potential of our employees and the career wishes. In 2018, 81% of our employees had performance interviews (2017: 83%). We have failed to achieve the target of at least 90% performance interviews because there was given insufficient priority to this theme, which will be an important point of attention for coming year. Despite the societal tendency for organizations to favour talent development interviews over performance interviews, we still see added value in conducting such interviews, also because in these interviews, openness and honesty are preconditions. This makes them enlightening from both sides.

### EMPLOYEE SATISFACTION

In order to measure our status as a good employer, we carry out employee satisfaction surveys (ESS) about every three years. The surveys provide important information 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 research agency.

The total average score for employee satisfaction was 7.2, which was comparable with the previous year. The total satisfaction score of TKH is above the benchmark (7.04). From the surveys carried out during the year under review, the safety aspect again scored highly with 8.3, followed by cooperation (7.6) and working conditions (7.5). One item for improvement is communication, with a score of 6.7. At 83%, the response was good, putting it above the sector average of about 70%. For us, this is a sign that our employees understand the importance of such surveys.



## ENTHUSING YOUNG PEOPLE ABOUT TECHNOLOGY

This summer, Commend in Salzburg (Austria) welcomed young people from the region who preferred to devote part of their holidays to the 'Technology IT Weeks', an initiative of the Austrian Industrial Association, Salzburg Province, the Chamber of Commerce, the Technical University and Salzburg Research. Young people were given the opportunity to familiarize themselves with technology. At Commend, they were shown the 'audio laboratory', a fully sound-absorbing room where they had to optimally tune the audio to certain situations. They could also test their skills in assembling and operating intercom stations.

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Employee satisfaction surveys provide important information regarding the motivation, satisfaction and expectations of our employees.

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# PLANET - THE EFFECTS OF THE BUSINESS ON THE NATURAL ENVIRONMENT



## SUSTAINABLE LED LIGHTING

In the subsea cable production plant in Lochem (the Netherlands), the existing lighting was replaced by LED lighting of TKH's BB Lightpipe concept. This has enabled an adaptive application of lighting. In bright sunshine, the lighting is muted so that less energy is consumed. The working area is even dimmable based on the number of people present there. These opportunities, as well as the energy-efficient lighting concept, have resulted in significant energy savings.

By continuously measuring and improving our environmental performance, we are making an attempt to reduce environmental impact as much as possible. In order to gain insight into environment-related elements, all our manufacturing companies are certified for the ISO 14001 environmental management system.

At all our production companies, from the design stage onwards, the raw materials and other materials used are chosen so that they have little or no harmful impact on the environment. And energy used in the manufacturing processes is analyzed and, where necessary and feasible, adjusted downwards.

### ENERGY AND EMISSIONS

For years now, we have been running a program for reducing energy consumption and monitoring our use of electricity (kWh), natural gas (m<sup>3</sup>) and fuels (litres). At 73% 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 heating buildings and, to a much smaller extent (< 5%), process heating. We have seen a further decline in the consumption of diesel and fuel oil in recent years. This accounts for only 1% of total consumption and is particularly used in Asia for heating installations in buildings.

Energy consumption (in kWh) compared to total turnover decreased by 3.0% in 2018 compared to 2017. CO<sub>2</sub> emissions decreased by 4.4%. If we compare consumption with the reference year 2015, energy consumption in kWh decreased by 3.0% and CO<sub>2</sub> emissions decreased by 2.9%. We have been able to achieve energy savings despite some larger investments in manufacturing facilities that have had an increasing impact on energy consumption and as yet a

limited contribution to revenues. We are on track for the target of a 5% reduction in kWh and a 2.5% reduction in CO<sub>2</sub> emissions by 2020, with 2015 as the reference year. To a limited extent, TKH uses green certificates in order to make an accelerated contribution to energy and CO<sub>2</sub> reduction. Of course, we prefer a reduction in energy and CO<sub>2</sub> directly related to our daily activities. We focus on this permanently.

Our German subsidiaries are ISO 50001 certified. ISO 50001 is used to gain insight into energy performance by measuring and monitoring energy consumption. Energy improvements can then be made through targeted action plans.

### VEHICLE FLEET

'Greening' our vehicle fleet will also help to reduce CO<sub>2</sub> emissions. We have set ourselves the target of allowable maximum CO<sub>2</sub> emissions of 95 grams/km in 2020. The average CO<sub>2</sub> emissions in grams/km of TKH's existing Dutch lease fleet in 2018 were 90.1 grams/km (2017: 93.6 grams/km). The additions to the leased fleet in 2018 had average CO<sub>2</sub> emissions of 88.7 grams/km (2017: 101.5). There are an increasing number of electric cars in our fleet. Our leased fleet consists of 23.3% hybrid and electric cars (2017: 21.3%).

Our targets are still based on the 'old' emission test New European Driving Cycle (NEDC). This is currently being replaced by a new emission test that is used within the European Union, namely the Worldwide Harmonized Light Vehicle Test Procedure (WLTP). The WLTP is a new, refined test cycle that displays higher but also more realistic values for CO<sub>2</sub> emissions and fuel consumption. From 2020 onwards, the EU will convert the current (NEDC-based) CO<sub>2</sub> targets for the automotive industry to WLTP CO<sub>2</sub> targets of comparable weight. We will review our target for greening





the fleet once the transition to the WLTP is completed, so that the new CO<sub>2</sub> targets are also based on the WLTP.

### REDUCTION OF RAW MATERIAL CONSUMPTION AND WASTE

Among other things, sustainable business practice is about making sustainable use of resources. TKH's Operational Excellence program enables us to continually focus on the efficient use of raw materials and reducing waste. Efficient management of materials and raw materials is 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 inevitably generated. The main raw materials used by TKH are copper, granulate and aluminium. All waste produced is in the non-hazardous waste category.

Our policy is aimed at eliminating waste to such an extent that it has as little impact on the environment as possible. 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. We achieve a reduction of waste by improving processes and innovating.

- Qualitative: We minimize the damaging effect of the waste. This entails combating the depletion of raw materials by using recycled materials ('recyclate') and optimizing waste treatment by greater cooperation throughout the value chain.

Total wastage of the most relevant raw materials, compared to total material consumption, was 7.9% in the year under review, while 5.0% waste was generated in 2017. This percentage increase is mainly due to the learning curve effect in subsea cable systems. If we leave this aside, we have generated 4.9% waste compared to total material consumption, keeping us within our target of up to 5%. During the year under review, we gave a high priority to optimizing the production process and tailoring production to the innovative cable systems to be produced. In this way, we aim to ensure that the amount of waste will return within the set range in the shortest possible time.

79.0% of the total waste was recycled, while we set a minimum of 50% as a target (2017: 71.4%). 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. 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. In the year under review, investments were made in manufacturing equipment for the in-house recycling of cable waste. The goal is to be able to completely recycle the cable ourselves, which also means saving on the purchase of raw materials as well as on transport to the waste processor, which will have a beneficial effect on (indirect) CO<sub>2</sub> reduction.

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## TKH's Operational Excellence program enables us to continually focus on the efficient use of raw materials and reducing waste.

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We are taking sustainability criteria into account in selecting raw materials and other materials, alongside price and quality, of course. Cooperation in the value chain also plays a large part in successfully introducing sustainable product innovations. We have become one of the value chain partners in '100% circular use of materials in the underground infrastructure'. By working closely with partners in the chain, we will achieve the innovations that are needed to fulfill this ambition. In the cable manufacturing companies, sustainable cable composition is given high priority and we continue to focus on innovative manufacturing techniques and improving efficiency in the value chain. We have conducted chain discussions on how processes and products can be made more sustainable, so that raw materials and energy are used more effectively, leading to savings.

## PROFIT - A CONDITION FOR THE COMPANY'S CONTINUITY

TKH applies a strategy aimed at long-term value creation. 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 Telecom, Building and Industrial Solutions. TKH's most important financial objectives are stated in chapters 'Strategy and objectives' and 'Report of the Executive Board'.

### TAXES

'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 an important part of the TKH strategy and corporate social responsibility policy. The tax position of TKH reflects the normal conduct of our business as well as the geographical

distribution of our activities. Tax is paid where economic activity and value creation occurs to a major extent. This is one of the relevant elements relating to fair share tax contributions (as well as the BEPS project). TKH does not use so-called 'tax havens'. Furthermore, the starting point is that we comply with relevant national and international laws and regulations. In our relationship with tax authorities, we strive to build strong, mutually respectful relationships based on transparency and trust. In the Netherlands, this is explicit in the 'horizontal monitoring' covenant.

TKH submits an annual 'Country-by-Country' report (CbC) to the Dutch Tax Administration ('Belastingdienst'). This report is made available to the tax authorities of the countries in which TKH operates through the appropriate channels.

The following table shows the tax paid in 2018 by region. The tax paid is often different from the calculated tax burden, due to prepayments that differ from the final tax burden. This can be caused, among other things, by temporary differences, deferred taxation and uncertain tax positions. In 2018, TKH paid a total of € 28.0 million in profits tax. As at 31 December 2018, an amount of € 5.8 million in profits tax was still payable by TKH on the basis of preliminary tax calculations. Note 32 to the financial statements includes a reconciliation of the effective tax rate.

### CORPORATE INCOME TAX IN 2018

In thousands of euros	The Netherlands	Europe (other)	North America	Asia	Other	Total
<b>General information</b>						
Aggregated revenues realized by companies in the country without elimination of intercompany deliveries	870,514	735,722	148,813	269,692	32,284	2,057,025
Pre-tax result	53,676	54,274	9,780	18,736	1,931	138,397
Tangible non-current assets	127,944	67,295	6,888	40,675	2,590	245,392
Number of FTEs	2,136	2,898	441	963	95	6,533
<b>Tax</b>						
Corporation tax to be paid / claimed on 1 January 2018	1,259	-2,121	-461	-1,038	-596	-2,957
Corporation tax paid in 2018	-10,086	-10,188	-3,780	-3,548	-436	-28,038
Corporation tax to be paid / claimed on 31 December 2018	-2,309	-3,891	915	-370	-188	-5,843

Tax is paid where economic activity and value creation occurs to a major extent.

## POSITIONING - SAFEGUARDING OUR GOOD REPUTATION

TKH conducts its 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 underpin our sustainability policy on the basis of internationally recognized (quality) standards, labels and accreditation marks. We have a thorough risk-management system, on the basis of which we identify potential risks at an early stage so that they can be acted on and corrected. Our subsidiaries operate increasingly according to ISO standards relating to sustainability. Our subsidiary TKF has been certified for the CSR performance ladder for a number of years. Within the organization, this certification leads to more awareness of and commitment to sustainability, also because of the (pre-)audits to be carried out. 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 product portfolio with innovative concepts tailored to the customer's wishes. Sustainability criteria are becoming increasingly relevant to this. 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 share of innovations in our turnover was 20.8% (2017: 22.2%). 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. Our products are tested for a continuous improvement process based on the specifications. The potential impact on health and safety is also taken into account.

All cables for fixed installations in architectural and civil engineering structures are CPR (Construction Products Regulation)-certified according to NEN 8012. NEN 8012 refers to the characteristics of cables in the event of fire, with the aim of reducing the risk of fire propagation and smoke development. This standard is used to determine the fire class. The transition to NEN 8012 has led to a large number of new cable specifications. Examples of sustainable innovations in our technologies and (total) solutions are provided in the section to this annual report.

### SUSTAINABLE RELATIONSHIP WITH THE CUSTOMER

TKH constantly tries to exceed the customer's expectations by offering best-in-class solutions. Customer intimacy plays an important role in the organization. We know what our customers do and provide tailor-made solutions. In addition, we would also like to learn how our customers value us. To this end, we conduct customer satisfaction surveys (CSSs) with a cycle of approximately three years. Based on the outcomes of these surveys, we can take specific action to serve our customers even better. The average score of the CSSs was 7.9 in 2018, which is the same score as in 2017 and is slightly above the benchmark score of 7.8. Our order handling scores highest with 8.4, followed by account management with 8.3. Complaints resolution scored lowest with 6.9. At 30% (2017: 30%), the response to the CSSs was somewhat low.

Our service must be of the highest possible quality. In spite of this, we cannot always avoid customer dissatisfaction. If we receive customer complaints, proper, prompt complaints resolution has high priority. We set a target of resolving at least 60% of all complaints within one working week. In 2018, 80% of all customer complaints were resolved within one working week (2017: 80%). Obviously we want to further reduce the number of complaints.



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TKH conducts its activities in accordance with principles of honesty, integrity and openness.

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Our activities may cause nuisance in the surrounding area. We make every effort to prevent this or to reduce it to a minimum. To this end, we have drawn up several internal guidelines and implemented noise-reduction and smell-reduction measures. We register and manage environmental complaints and inform those involved in good time about the corrective or preventive measures. In the past year, we received three complaints about noise pollution that we were able to resolve to the satisfaction of the complainants.

## INTEGRITY & GENERAL ORGANIZATIONAL PRINCIPLES

TKH values highly the integrity of its employees' conduct. Clear guidelines, operational control and a zero-tolerance policy in relation to matters of principle, such as fraud, bribery and corruption, ensures that work is carried out in accordance with the appropriate principles and agreements. We have drawn up a code of conduct to ensure that every employee acts according to TKH's conduct guidelines. We use the OECD guidelines as a reference framework. Each employee confirms in writing that they will act in accordance with the code of conduct. Managers are required to set an example of good conduct. The code of conduct is linked to a sanctions policy in cases of unacceptable behaviour.

The managers of our subsidiaries are responsible for implementing the code of conduct within their organizations. The code of conduct has been signed by 96.1% of the total number of employees. The desired 100% has not been achieved due, among other things, to a longer lead time than intended for signing the code in the case of new employees. We will maintain close contact with the subsidiaries and establish clear rules to eliminate such delays as quickly as possible. Internal Audit ensures that the code of conduct is

complied with in all parts of our organization. There is close cooperation with the Compliance Officer and TKH's Legal Advisor. Among other things, the Internal Control Framework is used to effectively monitor and assess possible bribery and corruption risks. The code of conduct can be downloaded from the TKH website.

Part of the code of conduct is a whistleblower scheme. All TKH employees 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 the 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 an subsidiary that is qualified as inadmissible behaviour, the subsidiary's Confidential Officer will promptly notify the Compliance Officer of TKH Group, who is the central point of referral for integrity issues. The latter, acting together with the Executive Board, will deal with the report and, if desirable, will consult the company Confidential Officer of the subsidiary concerned. After the report has been investigated, the Executive Board will make a decision in consultation with the board of the subsidiary concerned or a representative of that board. In the year under review, no reports were received under the whistleblower scheme. It is difficult to draw clear conclusions about the level of awareness of integrity and the possibility of reporting abuses. We believe it is important to stimulate an open and transparent culture and measure such themes in the ESSs. The whistleblower scheme can be downloaded from the TKH website.

## IT SECURITY & PRIVACY

Due to increasing alertness to potential cyber risks, IT & Security has been put high on the strategic agenda and a clear IT & Security policy has been formulated and implemented at TKH. In addition, IT audits have been carried out at subsidiaries on the basis of which action plans have been drawn up and implemented to counter vulnerabilities

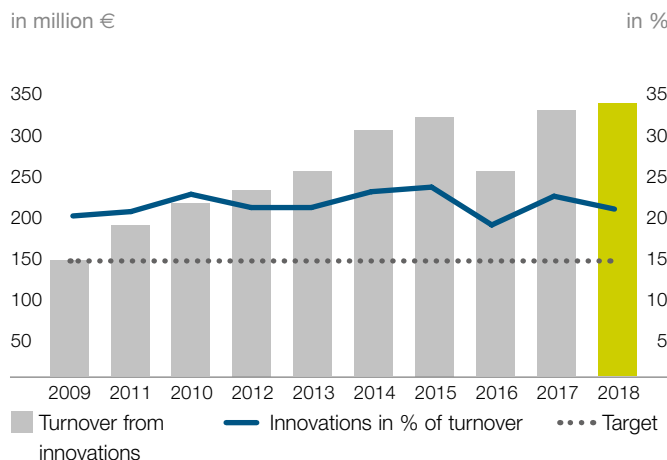
in IT systems. As a result of the IT audits, the themes of cybercrime and cyber risk have gained strong support in the organization and there is an awareness of possible risks. IT & Security is part of the focus area of Internal Audit, which ensures permanent attention for this topic. Further information about IT & Security is included in the Risk Management chapter.

In May 2018, European legislation on the protection of privacy information, the General Data Protection Regulation (GDPR), came into force. This legislation imposes strict rules on the use of personal data and the storage of such information. One of the conditions is the establishment of a processing register that shows what personal data is used or stored, where, and for what purposes. The establishment of this register has given us insight into and control over data processing in the organization and the related privacy controls. In order to optimize the implementation of the new legislation as much as possible, workshops and webinars were organized during the first half of the year under review, under the guidance of external experts. Internal Audit and the internal Legal Advisor, also Data Privacy Officer (DPO), have supervised the correct implementation of the GDPR. A privacy regulation has also been drawn up and implemented in the organization.

## CODE OF SUPPLY

With regard to themes that are material to us, we expect a zero-tolerance policy from our suppliers too. Our requirements are enshrined in the code of supply and focus on human rights, environment, health, safety and ethical behaviour. Every (strategic) supplier with a purchase volume above € 1 million must sign the code of supply. If a supplier fails to meet one or more of the requirements in the code, we expect action to be taken to become compliant 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. In certain cases, local conditions may prevent the supplier from meeting particular requirements

## TURNOVER FROM INNOVATIONS





of the code. In such a case, we enter into dialogue to work towards a satisfactory solution. The code of supply has been signed by 84% of the suppliers that fall within its scope. Our goal is that our code will be signed by all suppliers that fall within its scope. The reason we have not yet achieved this is an increase in the number of suppliers in relation to a longer lead time than was intended for the signing of the code.

Within a maximum of two years after the code of supply has been signed, there must be an assessment of the supplier in question to review the items stipulated in the code. In the year under review, 82% of assessments were carried out with suppliers who signed our code of supply up to two years ago. Internal Audit has included auditing the processes to be carried out in relation to the code of supply in its work program. The code of supply and the assessment form can be downloaded from the TKH website.

### HUMAN RIGHTS

We have included provisions regarding the respecting and safeguarding of human rights in both our code of conduct and the code of supply. We use the OECD guidelines as a reference framework to enable us to quickly identify potential risks. These OECD guidelines refer to the Universal Declaration of Human Rights, which states that all parties in society, including companies, are obliged to respect and safeguard human rights. In the assessment that we carry out with suppliers with regard to our code of supply, we ask whether the supplier has a policy statement on human rights based on international principles such as the OECD guidelines. We also ask whether there is a management system for health and safety in place. We discuss possible risks of discrimination, the right to social security and living wages, and the risk of child labour in the value chain. Our policy is not to tolerate any violation of any human right. The assessments carried out with suppliers have revealed no violations of human rights. Last year, the right to privacy was identified as a specific theme, also in view of the new European privacy legislation. Privacy is an important principle



## MORE SUSTAINABLE LOGISTICS PROCESSES

When insourcing in external transport, TKH requires increasingly that transport companies have to provide the 'Lean & Green' certificate. Lean & Green Logistics is a CO<sub>2</sub>-reduction program that encourages organizations to grow to a higher level of sustainability by taking

measures that not only generate cost savings, but also reduce environmental impact. With Lean & Green Logistics, we want to show that we are actively working to make the logistics process more sustainable.

of human rights. People must be able to live in freedom, without everyone knowing everything about them. The Privacy Act gives people more rights and organizations more obligations to handle personal data carefully. Internal Audit covers this theme of human rights as part of its auditing activities. It asks our managers about their observance of human rights and whether there are any potential human rights conflicts that could arise, chiefly in the value chain in which we operate.

### 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

We act strictly according to the letter of the law and/or regulations that are closely related to our business operations. Internal Audit has an important auditing function regarding our compliance with laws and regulations. In the event that sanctions are imposed on our company, we will explain the cause and the corrective actions that have been taken. In 2018 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. 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



## CAMPAIGN FOR ENVIRONMENTALLY FRIENDLY DRIVING

In 2018, EFB in Germany launched an internal campaign to promote environmentally friendly driving by all employees with a company car through such things as a fuel-saving competition. The competition was to achieve the lowest average fuel consumption and the highest fuel savings compared to the previous year. This competition succeeded in reducing the fuel consumption of the company. On average, 2,500 litres of fuel were saved in three months. The campaign has also led to more awareness of the sustainable impact of driving styles.

### CSR OUTLOOK

In 2019, permanent attention will be paid to diversity of the workforce, including gender diversity. We and our subsidiaries will further refine programs and set targets. We shall continue to do our utmost to provide our employees with an inspiring, challenging and safe environment in which to work. We shall continue to pay special attention to vitality and health, and will further roll out the vitality program within our organization.

For 2019, the energy audit will be on the agenda for the European subsidiaries that fall within the scope defined for this. The European Energy Efficiency Directive (2012/27/EU) requires Member States to ensure that large companies undergo an energy audit. The energy audit is a systematic, four-yearly approach with the aim of gathering information on a company's current energy consumption. The energy audit provides a detailed overview of all existing energy flows within the company. Because of our constant focus on energy consumption and reduction, we are well prepared for these audits.

In the coming year, we will again co-operate on supplying sustainability information on external information platforms. However, our policy is to be very selective in providing information on new platforms. We will only consider participating in new value chain initiatives that are directly related to our activities. We will intensify existing value chain initiatives in the year to come.

The Sustainable Development Goals (SDGs) will have a prominent place in our sustainability policy. In the coming year, we will involve our subsidiaries more closely in order to develop the SDGs through value chain initiatives.

In 2019, we will again organize a stakeholder dialogue in which we will deal with current themes. We are convinced that the stakeholder dialogue an important opportunity is for communication in which we can review our CSR policy with the target groups important to us. This also provides us with the necessary input that will spur us towards improvements and innovations in our policy and our approach to it.

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 2018, the TKH Group spent € 0.4 million on sponsorship and donations to charity. This was 0.4% of its net profit before one-off income and expenses (2017: 0.4%).



# OUTLOOK

Barring unforeseen circumstances, we expect the following developments for each business segment in 2019.

## TELECOM SOLUTIONS

We expect continued growth of investments in optical fibre systems in Europe and China. As we have mainly invested in market penetration in Europe, and focused on capacity expansions, we expect to be back on the path to growth mid-2019. In the coming quarters, we will review whether the current over-capacity for optical fibre in China will normalize as a result of the investment plans announced by the telecoms companies in that country. If this does not normalize, we expect this might (eventually) translate into some pressure on margins.

## BUILDING SOLUTIONS

Growth will be realized primarily in vision & security systems. With the acquisition of Lakesight Technologies in the fourth quarter of the year under review, we have added a broad portfolio of high-grade vision technologies for the industrial and mobility markets. We expect this to translate into growth in the Machine Vision segment. We also expect growth in Parking, largely on the back of further market penetration in North America and Europe with our parking management, guidance and communications systems. In the sub-segment

connectivity systems, we expect further growth in the market segment Tunnel & Infra on the back of greater demand for investment in energy networks. The turnover in subsea cable systems and airport technologies (CEDD/AGL) could still be limited, because it was not until the fourth quarter of 2018 that full efforts could be made to acquire new orders.

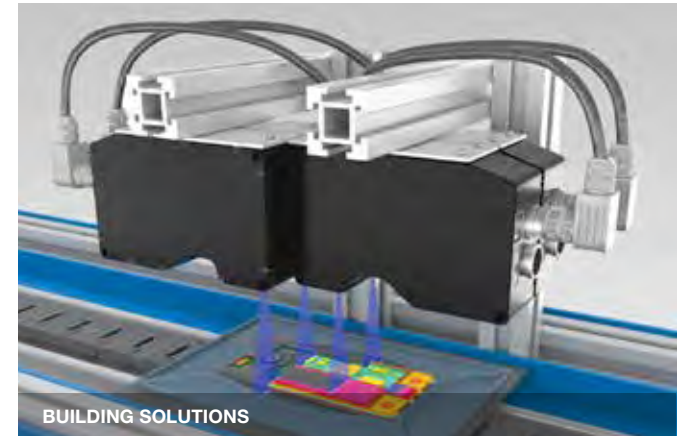
## INDUSTRIAL SOLUTIONS

We are seeing some reluctance to invest in the industrial sector, which has an impact on the growth opportunities in the sub-segment connectivity systems. In the sub-segment manufacturing systems limited negative impact is expected on the order intake due to the situation in China, partly because the contribution to turnover from China was already at a very low level in 2018. The order book is well-filled and the outlook for order intake in the first half of 2019 is good, which is reflected by the projects already announced and investments carried over from 2018.

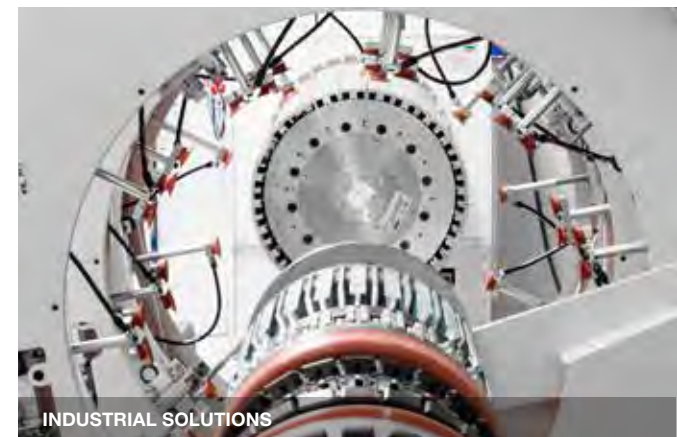
As usual, TKH will give a concrete profit forecast for the full-year 2019 at the presentation of its interim results in August 2019.



TELECOM SOLUTIONS



BUILDING SOLUTIONS



INDUSTRIAL SOLUTIONS

# GOVERNANCE

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## MEMBERS EXECUTIVE BOARD



**J.M.A. (ALEXANDER) VAN DER LOF** MBA (1958)  
CHAIRMAN EXECUTIVE BOARD, 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 the 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.

Mr. Van der Lof is responsible for the business segment Building Solutions.



**E.D.H. (ELLING) DE LANGE** MBA (1965)  
MEMBER EXECUTIVE BOARD, CFO

**Elling de Lange** 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 Netherlands – China cable production companies. Mr. De Lange has been a member of the Executive Board and Chief Financial Officer (CFO) of the TKH Group since 2008. Before he joined TKH Group, he served in several international management positions with Ballast Nedam.

Mr. De Lange is responsible for the business segment Telecom Solutions.



**H.J. (HARM) VOORTMAN** MSc (1966)  
MEMBER EXECUTIVE BOARD

**Harm Voortman** joined TKH's subsidiary VMI Holland BV in 2004, where he held various management positions, including that of Commercial Director. In 2010, Mr. Voortman was appointed CEO for VMI Group and in 2015 he also joined the Management Board of TKH. In 2018, Mr. Voortman was appointed member of the Executive Board of TKH Group. Before his career at TKH Group, Mr. Voortman worked in various R&D and management positions at among others Shell and Stork.

Mr. Voortman is responsible for the business segment Industrial Solutions.

# MEMBERS SUPERVISORY BOARD



MR. A.J.P. (ANTOON) DE PROFT MSC

chairman  
1960  
Belgian nationality

- 2014 first appointment
- 2022 term limit

- Chairman Selection and Appointment Committee

#### Main function

- CEO & President Septentrio Satellite Navigation

#### Current positions

- Chairman Executive Board IMEC
- Chairman Executive Board Quest For Growth,
- Managing Director ADP Vision



MR. J.M. (MEL) KROON MBA

vice-chairman  
1957  
Dutch nationality

- 2017 first appointment
- 2021 term limit

- Member Selection and Appointment Committee
- Member Remuneration Committee

#### Main function

- Former Chairman Executive Board TenneT Holding B.V.
- Associate partner - Improved Corporate Finance / Drake Star
- Advisor Mitsubishi Corporate

#### Current positions

- Member Supervisory Board Coöperatie VGZ
- Member Supervisory Board Koole Oil Terminal B.V.
- Member Supervisory Board EPEX SPOT S.E.
- Member Supervisory Board Ureenco Ltd/ UCN B.V.
- Member Advisory Board, Groenleven B.V.
- Member Advisory Board, Petersburg B.V.
- Chairman Supervisory Board Energyworx B.V.



MRS. C.W. (CARIN) GORTER RA

member  
1963  
Dutch nationality

- 2017 first appointment
- 2021 term limit

- Member Audit Committee

#### Main function

- Owner Carin Gorter Advies & Toezicht
- Former Senior Executive Vice President, Head Group Compliance, Security & Legal – ABN AMRO

#### Current positions

- Member Supervisory Board TVM Verzekeringen
- Member Supervisory Board Basic Fit
- Member Supervisory Board DAS Holding N.V.
- Member Monitoring Committee Accountancy
- External member Audit Committee Ministry of Justice & Security



MR. P.P.F.C. (PHILIP) HOUBEN

member  
1950  
Dutch nationality

- 2009 first appointment
- 2021 term limit

- Chairman Audit Committee

#### Main function

- Former Chairman of the Executive Board Wavin N.V.

#### Current positions

- Chairman Supervisory Board N.V. HVC
- Member Foundation Priority Antea Participaties



MR. R.L. (ROKUS) VAN IPEREN

member  
1953  
Dutch nationality

- 2011 first appointment
- 2020 term limit

- Chairman Remuneration Committee

#### Main function

- Former president & CEO of Canon Europe Ltd. / Senior Managing Executive Officer Canon Inc.
- Former Chairman of the Executive Board OCE N.V.

#### Current positions

- Chairman Supervisory Board Prinses Maxima Centrum pediatric oncology for children



# REPORT OF THE SUPERVISORY BOARD

The Supervisory Board oversees the way in which the Executive Board implements the strategy for long-term value creation for the company and its affiliated businesses. In performing this task, the Supervisory Board is guided by financial, commercial, operational and governance information and focuses on the interests of all of the company's stakeholders.

The Supervisory Board provides the Executive Board with advice. It oversees the Executive Board's relationship with strategic stakeholders, including shareholders. The Supervisory Board is governed by by-laws, which include rules covering such matters as its working method, tasks, decision-making and competencies.

## COMPOSITION AND DIVERSITY

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, as well as markets and activities relevant to TKH. Each member of the Supervisory Board possesses the specific expertise necessary to fulfill this role and carry out this task. The Supervisory Board aims for diversity in its composition in terms of age, gender, background, occupational experience and nationality, taking account of the statutory requirements. The above-mentioned elements are also included in the profile drawn up by the Supervisory Board. The Dutch Management and Supervision Act (Art. 2:166 BW) stipulates a requirement for larger companies to achieve a quota of at least 30% women and 30% men on the Supervisory Board, insofar as these seats are occupied by natural persons. Due to the change in the composition of the Supervisory Board in May 2018, the Board currently has five members, one of whom is a female, so that the target percentage is not achieved. During the year under review, the Supervisory Board devoted a great deal of attention to the diversity aspect. It was again endorsed that diversity contributes to objective and sound decision-making.

However, diversity is not only considered important in terms of gender, but also in the available expertise, competencies and background. Nevertheless, gender diversity will be an important criterion when selecting and recruiting new members.

The composition of the Supervisory Board is such that the members are able to operate critically and independently of one another, the Executive Board and any particular interests. In the opinion of the Supervisory Board, all Supervisory Board members meet the requirements for independence as referred to in best-practice provisions 2.1.7 up to 2.1.9 of the Dutch Corporate Governance Code (the 'Code').

## INTRODUCTION PROGRAM

An introduction program has come into force for new members that takes account of the competencies and expertise that the members concerned represent on the Board. The introduction program partly focuses on the general strategy, the financial reporting and the organizational structure. The core technologies and commercial themes are explained with the aid of company visits, for example, which also supervises the permanent education of members of the Supervisory Board.

## CULTURE

TKH has an enterprising culture with a continual focus on technological development and a proactive approach to the market. Given its decentralized organizational structure,

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## The Supervisory Board provides the Executive Board with advice.

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responsibilities are assigned as far down as possible in the organization. The Executive Board leads by example and provides guidance on the proper standards and values within the organization. In order to supervise the culture aspect, the Supervisory Board makes company visits to, for example, obtain insight into the state of affairs, the organization and the management of risks by means of discussions with and presentations by local management. Consultation with the Central Works Council also represents an important assessment element in the field of culture. TKH applies different methodologies and systems to identify and manage risks. Possible risks as well as the risk-management systems are discussed with the Executive Board and openness about risks is stimulated.

## MEETINGS DURING THE YEAR UNDER REVIEW

In the year under review, five regular meetings and one extra meeting were held which were all attended by the Executive Board. Also in the reporting year, there were three closed meetings. One member of the Supervisory Board was unable to attend the extra meeting due to pressing reasons. In the case of inability to attend, the member of the Supervisory Board in question informs the chairman before the meeting

of 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 financial statements took place in the presence of the external auditor. In preparation for the 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.

### SPECIFIC THEMES

The Supervisory Board fulfils its tasks of supervising and advising the Executive Board based on both agenda items that recur at every meeting as well as on specific subjects that are relevant for discussion at a certain moment.

During the year under review, the implementation of the growth plans was a recurring theme, on the basis of which, among other things, the approved investments from previous years were monitored. The status of the defined building blocks for growth was discussed as well as the related roll-out of new technology. The increase in market share within the top 5 tire manufacturers and within consumer electronics for vision technology, is confirmation for the Board that the growth plans are coming to a successful conclusion. Special attention was paid to the execution of the first projects within subsea cable systems and airfield ground lighting. The Board was informed about how the organization is prepared for this growth and how it can promptly respond to situations, both in a positive and negative sense. The increase in the bandwidth for further growth within the Fibre Optic Networks and Machine Vision vertical growth markets at the beginning of the year under review reflects a healthy ambition by the management and indicates the confidence of the organization in the technology developed and the market opportunities.

Because of the relevance of the growth planning within the vertical growth markets, the Supervisory Board has -for practical reasons as well- designated one or more vertical growth markets to each of the members as their area of attention. As a result, supervision of developments, possible risks and dilemmas in the growth markets is structurally safeguarded.

The organic growth realized in the reporting year is a confirmation of the potential of the TKH strategy. The success of R&D developments are recognized to be key to the long-term value creation of TKH. The Supervisory Board requested information at every meeting on the progress of key investment projects in both intangible and tangible fixed assets. It can be concluded that the various projects have been organized in a very thorough manner.

To assess the execution of the strategy and the growth scenarios with the associated strategic (investment) program, 'deep dive' presentations of the vertical growth markets are given. This gives the Board a better understanding of technological developments, the positioning of the solutions, the market opportunities and the challenges involved in the further execution of the plans. During the year under review, 'deep dive' presentations were given of the Tire Building Industry and Fibre Optic Networks vertical growth markets.

By quickly and effectively implementing the right actions and further developing the organization, the desired efficiency improvements within the Parking vertical growth market were achieved in the reporting year. The Supervisory Board is convinced that the successful implementation of improvement programs is supported by short lines of communication and a strong commitment from the Executive Board.

During the year under review, the Supervisory Board approved the acquisition of Lakesight Technologies ('Lakesight') with its head office in Germany. The Board recognizes that the acquisition of Lakesight is a strategic addition due to its innovative high-end vision technology for imaging systems. Lakesight also strengthens the security vision technology because of the position it occupies in the mobility market with cameras and solutions in, for example, the field of intelligent traffic systems.

Within the scope of the strategic focus with regard to TKH's portfolio and activities, this subject, together with the associated actions, was regularly discussed, and further steps were taken by the Executive Board on the basis of this. The content of the press releases concerning the annual and interim figures were discussed with the entire Supervisory Board prior to publication. The content of the press releases relating to trading updates were agreed with the chairman.

### ATTENDANCE OF MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

MEETING	A. De Proft	M. van Lier Lels <sup>1</sup>	M. Kroon	C. Gorter	P. Houben	R. van Iperen
Supervisory Board	6/6	2/2	6/6	6/6	5/6	6/6
Audit Committee				5/5	5/5	
Remuneration Committee		1/1	3/3			4/4
Selection and Appointments Committee	1/1	1/1				

<sup>1</sup> Up to and including 3 May 2018.



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The acquisition of Lakesight is a strategic addition due to its innovative high-end vision technology for imaging systems.

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#### COMPANY VISITS

Annually, at least one regular meeting is held at a location of a subsidiary. These company visits offer the Supervisory Board the opportunity to get in touch with employees and strengthen the Board's insight into the TKH activities, technological developments and organizational capacity. Local themes are also discussed, as well as possible challenges faced by local management. During company visits, presentations, demonstrations and guided tours are always part of the program. The cultural aspect thus also receives attention.

In October 2018, a visit was made to the Polish subsidiaries. The Supervisory Board was informed about technology and project developments as well as local themes. The Board gained insight into the project-related collaboration between the Polish subsidiaries and other TKH subsidiaries. Software development within TKH is largely concentrated at C&C Technology in Poland, which is an important knowledge reservoir in the development of smart technology. The Polish facilities of VMI were visited because of the expansion investments made and the important position this location occupies in VMI's growth strategy. The visit gave the Supervisory Board insight into the different technological developments, the markets they serve, the competitive playing field, the possible risks as well as the way in which these risks are managed. The dedication of the management and employees, as well as the enthusiasm shown, was experienced by the Supervisory Board as very inspiring.

#### CHANGES IN THE EXECUTIVE BOARD

During the first months of the year under review, the recruitment of a new member of the Executive Board had high priority within the Supervisory Board, following Mr. A.E. Dehn's decision not to be considered for a subsequent term as of the 2019 General Meeting of Shareholders and to take on a new challenge outside TKH Group. As a result, it was decided in mutual consultation that Mr. Dehn would step down from the Executive Board as of the 2018 General Meeting of Shareholders. In the selection procedure, the preference was finally expressed for an internal candidate with the required competencies and experience within the markets and activities relevant to TKH and a proven track record. At the General Meeting of Shareholders of 3 May 2018, Mr. H.J. (Harm) Voortman MSc was appointed member of the Executive Board.

#### CLOSED MEETINGS

The Board met three times in the absence of the Executive Board. In March 2018, the Chairman provided feedback on the individual talks he had held with the members of the Executive Board. The Remuneration Committee also explained the remuneration proposal for the Executive Board for 2018 after which the Supervisory Board approved the proposal. The reappointment of Mr. A.J.P. De Proft MSc was unanimously supported by the other members so that the Supervisory Board recommended the reappointment to the General Meeting of Shareholders on 3 May 2018, after which the General Meeting of Shareholders adopted this recommendation by reappointing Mr. De Proft. Due to the change in the composition of the Board, the memberships in the committees were also re-adopted at the closed meeting in March. Mr. J.M. Kroon MBA was appointed to the vacant position of Vice-Chairman. In October, the Remuneration Committee updated the analysis and external assessment of the market conformity of the remuneration of the members of the Supervisory Board. In December 2018, the evaluation of the functioning of the Supervisory Board, its committees and the individual members, as well as the cooperation with and



the functioning of the Executive Board were discussed in a closed meeting. The Remuneration Committee also submitted the proposal to change the remuneration of the members of the Supervisory Board and its committees.

#### REGULAR MEETINGS

In the regular meetings, the most prominent repeating agenda items are financial developments, acquisition possibilities, investments and divestments, and technological, organizational and market developments as well as Investor Relations. 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 Solutions area, as well as the related actionable items for the short- and medium-term. During the year under review, recurring themes were the progress concerning the start-up of production for specialty cable systems in China, the start-up of the Polish facilities for tire building systems, the delivery of the first projects within subsea cable systems and CEDD technology, as well as the technological and market developments within the machine vision segment. In addition, the efficiency improvement programs were discussed with a number of companies to accelerate the increase in Return on Sales (ROS) in the medium-term.

At the March meeting, the reappointment to the Supervisory Board was ratified and it was decided to submit the candidate to the General Meeting of Shareholders. The 2017 financial statements were discussed and approved in the presence of the external auditor. The external auditor also presented its findings in relation to the audit of the financial statements. The Audit Committee reported on its meeting, and advised the Board on commissioning the external auditor to audit the 2019 financial statements. Further, the dividend proposal as it was submitted for adoption to the General Meeting of Shareholders was discussed. The Supervisory Board agreed to the increase of the medium-term ROS and ROCE target as confirmation of the strategic progress. The Executive Board's proposed increase in the turnover growth bandwidth for the Fibre Optic Networks and Machine Vision vertical growth markets was also approved. The amended regulations in connection with the revised Code and the amendment of the articles of association were adopted.

Topics discussed during the meeting in May covered profit and general developments in the first quarter and the preparations for the General Meeting of Shareholders.

The profit and general developments during the second quarter as well as the interim figures were discussed at the August meeting. The Audit Committee reported on its meeting. The Lakesight acquisition opportunity was discussed as well as the financing possibilities of the

acquisition. At this meeting, the Board approved the investments for expansion of production capacity for tire building systems in Poland. The strategic developments within the Tire Building Industry vertical growth market were explained by means of a deep dive presentation.

An additional meeting was convened in October to discuss the progress and further decision-making on the Lakesight acquisition opportunity.

The regular meeting in October discussed the results and general developments for the third quarter. As this meeting took place in Poland, the management of the Polish subsidiaries gave presentations to provide a better understanding of the opportunities within the Polish market, the various technology developments and the intensive collaboration between the Polish and other TKH subsidiaries.

The 2019 budget and the 2019 investment plan were discussed and approved at the December meeting.

The Audit Committee reported on its meeting. The HR developments were explained with a focus on Management Development, the approach and follow-up with respect to succession planning, employee satisfaction as well as ongoing programs on sustainable employability. The Supervisory Board endorses the added value of a sound succession planning strategy that enables key positions to be properly and efficiently filled. The organizational structure was explained, the way in which the Executive Board monitors the design and operation of the internal risk management systems and the promotion of diversity within the organization, particularly with regard to gender and age. The progress made in the area of corporate social responsibility (CSR) was elaborated on. Among other things, the Board was informed about the increasing relevance of non-financial information for strategic stakeholders, including shareholders and investors. The Supervisory Board observes that CSR is well embedded in the TKH organization and that it is a full-fledged item on the strategic agenda. Due to the

digital transformation within the TKH product portfolio and the relevance of and dependence upon IT in general, the Director Internal Audit gave a presentation on the IT & Security policy within TKH. The results of the IT audits were explained together with the associated action plans to counteract vulnerabilities in IT systems. The theme of cyber risks also received the necessary attention. The Supervisory Board endorses the relevance of a solid IT & Security policy and has found that, partly due to the IT audits, the theme has considerable support within the TKH organization and there is awareness of possible risks. The strategic positioning of the Fibre Optic Networks vertical growth market was explained by means of a 'deep dive' presentation. The overall TKH strategy was also discussed in detail.

#### **CONTACT WITH THE CENTRAL WORKS COUNCIL**

Several members of the Supervisory Board discussed business strategy and the general course of affairs with the Central Works Council. Also the themes were considered that are currently live within the individual Works Councils, such as sustainable employability and the mutual cooperation between subsidiaries. The Board members have a great deal of respect for the professional way in which the Central Works Council deals with key developments that have an impact on TKH, and considers the consultations with the Central Works Council as open, constructive and valuable. For the Supervisory Board, consultation with the Central Works Council is also an important element in assessing culture aspects within the organizations.

#### **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. These committees have the task of laying the groundwork for the decision-making process of the Supervisory Board.

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**CSR is well embedded in the TKH organization and it is a full-fledged item on the strategic agenda.**

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### SELECTION AND APPOINTMENTS COMMITTEE

During the year under review, there was a change in the Selection and Appointments Committee due to the resignation of Ms. M.E. Van Lier Lels from the Supervisory Board. Her position was filled by Mr. J.M. Kroon MBA. As of 3 May 2018, the Selection and Appointments committee comprises Mr. A.J.P. De Proft MSc (Chairman) and Mr. J.M. Kroon MBA. The committee draws up the selection criteria and appointment procedure for members of both the Supervisory Board and the Executive Board. It assesses the size and composition of the Supervisory Board and the Executive Board and makes a proposal for 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. The Committee also oversees the policy of the Executive Board in terms of selection criteria and appointment procedures for the company's senior management. Last year the Selection and Appointments Committee focused on filling the vacancy that arose in the Executive Board. To that end, discussions were held with the members of the Executive Board about the desired profile as well as with the intended candidate. The Committee prepared the evaluation of the Supervisory Board and the Executive Board. The Selection and Appoint-

ments Committee met once during the past reporting year at a formal meeting with items including the preparation for the evaluation of the Supervisory Board and the Board and the nomination of the candidate for the Executive Board. Various telephone consultations were also held. The Selection and Appointments Committee reports the most important results of each of its meetings to the Supervisory Board.

### REMUNERATION COMMITTEE

During the year under review, the composition of the Remuneration Committee changed due to the resignation of Ms. M.E. Van Lier Lels. Her position in the committee was filled by Mr. J.M. Kroon MBA. As of 3 May 2018, the Remuneration Committee comprises Mr. R.L. van Iperen (Chairman) and Mr. J.M. Kroon MBA. The committee advises the Supervisory Board on the remuneration policy for the Executive and Supervisory Board 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 four times during the year under review. During the meeting in February, the remuneration policy was discussed and the realization of the targets of the Executive Board were evaluated and subsequently discussed with the chairman of the Executive Board. The targets for the Executive Board for the following financial year were also discussed. On the basis of the achieved targets, the outcome was presented to the full Supervisory Board and decisions on the remuneration of the Executive Board were made at the closed meeting of the Supervisory Board in March. The Remuneration Committee commissioned an external consultant to perform an external assessment of the remuneration of members of the Supervisory Board. Three meetings of the Committee were devoted respectively to the preparation of this assessment and the discussion of its outcomes. As a result of the assessment at the closed meeting in December, the Remuneration Committee advised that the remuneration should be adjusted on the basis of market conformity and the increased activities of the Supervisory Board, its Chairman and the

Committees. On the recommendation of the Supervisory Board, a change in the remuneration of the members of the Supervisory Board and its Chairman, as well as in the remuneration of the membership of a number of Committees, will be proposed to the 2019 General Meeting of Shareholders.

### AUDIT COMMITTEE

The Audit Committee comprises Mr. P.P.F.C. Houben (Chairman) and Mrs. C.W. Gorter RA, with the latter of these two considered the expert in drawing up and auditing the financial statements. The Audit Committee reports the most important results of each meeting to the Supervisory Board. The following are in any case included: the way in which the effectiveness of the set-up and functioning of the internal risk management and control systems and the internal and external audit process is assessed; material considerations in terms of the financial reporting; the way in which the material risks and uncertainties, as referred to in best-practice provision 1.4.3 of the Code, were analyzed and discussed. The Audit Committee had five regular meetings during the year under review. These meetings were held in the presence of the external auditor EY, the CFO, the Director Internal Audit and the Director of Finance & Control of TKH. The Tax Director of TKH was present at two meetings. During these meetings, an explanation was given of national and international tax developments, specific tax themes that are important for TKH, such as the application of the Dutch innovation box regime, as well as tax compliance and risk management issues.

An ongoing consideration for the Audit Committee is the company's internal risk management and control system. Other topics that are included within the Committee's remit and that were discussed were impairment analyses and the implementation of the new IFRS standards 9, 15 and 16 with the possible impact on the profit and loss account and balance sheet. The Audit Committee found that the implementation of the new IFRS standards had been sound and structured.

During the year under review, frequent attention was paid to the progress and results of the IT audits as part of the IT & Security policy. In the opinion of the Audit Committee, the performance of IT audits leads to an increased awareness of possible IT risks within the organization and the subject is taken to a higher level. In addition, at each meeting, the Director Internal Audit provides an explanation of his findings in relation to the general audit activities carried out.

The Audit Committee discusses with the external auditor the audit plan on the basis of which he carries out his audit activities. The scope and materiality of the audit plan is also discussed, as well as the key risks in the annual reporting that the external auditor has identified in the audit plan. At the December meeting, the external auditor explained the Management Letter with its findings in the field of the administrative organization and internal control insofar as relevant for the audit. The most important themes that were discussed in this context are IT, progress in the start-up of subsea cable production, acquisition of Lakesight, the implementation and possible effects of the new IFRS standards, R&D accounting manual and the implementation of the Internal Control Framework.

The Audit Committee evaluates the performance of the external auditor annually with regard to the quality of the audit activities, the adequacy and implementation 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 and Executive Boards. Input for the evaluation partly formed the follow-up of the points for attention and improvement as drawn up by the external auditor and TKH with regard to the previous evaluation. The Audit Committee also discussed the work of the Director Internal Audit. Furthermore, the Audit Committee advises the Supervisory Board about the nomination for the (re)appointment of the external auditor and prepares the selection of the external auditor. The observations of the Executive Board are



included in this. The Audit Committee then submits a proposal to the Supervisory Board for commissioning the external auditor to audit the financial statements.

In 2018, the Audit Committee held a meeting with the external auditor without the Executive Board being present, in accordance with best practice provision 1.7.4 of the Code. It was also established that the external auditor is independent of TKH.

### EVALUATION

The Supervisory Board also convened a closed meeting to discuss its own performance and that of its Committees and individual members. In the lead up to this meeting, the individual board members each completed a self-evaluation form, which was then discussed by the full complement of the Board. The evaluation covered the Board's composition, independence, expertise and team effectiveness, as well as the quality of information provision, the role of the Chairman and relations with the Executive Board. It was concluded that the Supervisory Board as a whole as well as the individual members have functioned properly. The members are of the opinion that they complement each other sufficiently in the context of their role in advising the company, cover a good range of focus areas and represent many fields of expertise.

One of the results of the evaluation was that each of the members was designated one or more vertical growth markets as their area of attention - tailored as much as possible to the expertise and area of interest of the member concerned in order to ensure that they receive the necessary attention and to optimize the specific expertise. During the closed meeting, the items for attention as stated in the best-practice provision of the Code regarding the independence of the Supervisory Board (2.1.7.) as well as its individual members (2.1.8.) and the Chairman (2.1.9.) were also assessed. It was established that all members of the Supervisory Board were independent.

The communication from the Executive Board to the Supervisory Board takes place in an open, professional and constructive manner so that members of the Supervisory Board have a strong connection with strategic and operational issues. It has been established that there is a good working relationship between the Supervisory Board and the Executive Board, which are also sufficiently critical of one another. This is considered essential for the proper functioning of both Boards. 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. The Chairman of the Supervisory Board discussed the findings with the Executive Board.

### IN MEMORIAM

In July 2018 we received the sad news of the death of former Chairman of the Executive Board and former Vice-Chairman of the Supervisory Board, Mr. Cos Vrins. Mr. Vrins joined TKH in 1988 as a member of the Executive Board, and from 1989 until his retirement in 1996 as Chairman of the Executive Board. His drive, commercial and business knowledge and skills, as well as his entrepreneurship, were of great importance for the successful expansion of TKH



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## An ongoing consideration for the Audit Committee is the company's internal risk management and control system.

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during this period. After his retirement, Mr. Vrins joined the Supervisory Board and was later appointed as Vice-Chairman, a role he fulfilled in a very appropriate manner until 2002. In this period his contribution was once again of great value to the company. After his resignation in 2002 he remained deeply committed to TKH and followed developments in TKH Group very closely. Mr. Vrins meant a lot to TKH and we are very grateful for his services.

### **ANNUAL FINANCIAL STATEMENTS FOR THE 2018 FINANCIAL YEAR**

The Executive Board's management report and the 2018 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 based on the audit. 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 4 March 2019. The Supervisory Board submits the financial statements for the 2018 financial year to the General Meeting of Shareholders 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.

### **IN CONCLUSION**

The reporting year 2018 is a year with solid results, both operational and financial. The investments made in recent years have made an important contribution to this. This has created a solid foundation that leads to sustainable profitability and a healthy level of ambition. During the past year we have once again seen that TKH is a professional and decisive organization that can respond quickly to circumstances. At the same time, we realize that a lot is required of our employees. The drive and motivation of the employees forms a strong basis and leads to joint successes. We express our sincere gratitude and thanks to the Executive Board and to all employees for their extraordinary efforts yet again in the past year. We would also like to thank all other stakeholders, including shareholders and holders of depositary receipts, for the confidence they have shown in the company.

Haaksbergen, The Netherlands, 4 March 2019

On behalf of the Supervisory Board,  
A.J.P. De Proft Msc, *Chairman*



# REMUNERATION REPORT

This report describes the remuneration policy and the remuneration received by the members of the Executive Board and the remuneration of the members of the Supervisory 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 of 2005. Note 34 of the financial statements include a schematic overview of the remuneration of the Executive Board and Supervisory Board.

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The policy aims at providing a competitive compensation package to attract, motivate and retain qualified managers for a publicly listed company.

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## 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. It focuses on the long-term value creation of TKH and its affiliated companies. The compensation package is measured periodically against market trends using information provided by external experts. In addition, the internal remuneration ratios are taken into consideration. The compensation package is structured so that both short- and long-term objectives are maintained. According to the determined targets, the Remuneration Committee makes scenario analyzes with regard to the Short Term Incentive (STI) and Long Term Incentive (LTI) to be realized.

### REMUNERATION

The remuneration of the members of the Executive Board comprises a basic salary (Total Regular Income: TRI), pension and a variable element comprising an annual performance bonus (STI) and a long-term bonus (LTI) scheme entailing a share scheme. In formulating the proposal for the remuneration of the members of the Executive Board, the basis is the external assessment and the approved remuneration policy. In accordance with the Corporate Governance Code, the Remuneration Committee has taken note of the individual Executive Board members' views regarding the level and

structure of their own remuneration. The remuneration for the members of the Executive Board was reviewed externally in 2017 against and adjusted to market conformity.

The remuneration policy was also taken into account in this study, in which it was concluded that the remuneration policy with respect to the TRI, STI and LTI complies well with the set objectives.

### BASIC SALARY (TOTAL REGULAR INCOME: TRI)

Each year, the Supervisory Board determines whether, and if so to what extent, the base salary will be adjusted, with the collective agreement for the large-metal sector (FME) serves as the basis. For the comparison of basic salaries of 2018 and 2017, we refer to note 34 of the financial statements.

### PERFORMANCE BONUS (SHORT TERM INCENTIVE: STI)

Variable remuneration represents an important component of the remuneration package for the Executive Board. Every year, targets and criteria, on which the performance bonus is based, are set in advance by the Supervisory Board. 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 the basic salary (TRI). The Supervisory Board, on the 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 focused on, among other things, non-financial performance such as corporate social responsibility, innovation and the progress of the realization of growth scenarios of the vertical markets. 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 2018 resulted in 50% of the maximum performance bonus of basic salary (TRI) for Messrs Van der Lof, De Lange and Voortman, based on a realization of 83% of the maximum performance bonus. The Supervisory Board has the discretionary power to recover from the Executive Board the variable remuneration granted that is based on incorrect (financial) data. In line with the Claw-Back legislation, payment of the variable remuneration to the members of the Executive Board takes place subject to the condition of the correctness of the relevant (financial) data.

#### **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 related to the pre-formulated objectives 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 at factor 2.7 of the basic salary (TRI). 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 2018,

Mr. J.M.A. van der Lof has been allotted (depository receipts of) shares with a value of € 338,676, to Mr. E.D.H. de Lange (depository receipts of) shares with a value of € 254,000 and to Mr. H.J. Voortman (depository receipts of) share with a value of € 137,992, where the same number of (depository receipts of) shares as granted to the Executive Board must be purchased simultaneously by them for their own account. After the publication of the annual figures, these share transactions are exercised at the average closing price of the three trading days from the moment of publication of the annual figures. In the financial statements under note 34 'Related parties: remuneration key-management', the value of the grant is grossed for income tax to be paid.

#### **CEO PAY RATIO**

The pay ratio is calculated on the basis of the basic average annual salary per FTE within TKH Group in the Netherlands and the basic salary of the CEO of TKH. The result of the pay ratio for 2018 is 11.6 (2017: 11.9).

#### **LABOR MARKET PEER GROUP**

In order to attract qualified managers for the Executive Board and to retain the current members of the Board for the long-term, TKH takes into account external reference data when determining adequate remuneration levels. A specific reference group (peer group) for the labor market has been defined for this purpose. The focus is on the AMX companies of Euronext Amsterdam, with particular attention being paid to companies that are more or less comparable to TKH in terms of complexity, size and international scope of their business portfolio. The Supervisory Board, supported by external expertise, regularly reviews this reference group to ensure that the composition is still applicable. As an additional assessment of developments that are specific to the industry, a reference group is used that consists of (international) industry peers.

#### **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 posts. 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. More information on pensions is included in notes 17 and 34 of the financial statements.

#### **PERSONAL LOANS**

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

#### **CHANGE OF CONTROL**

There is no change of control clause included in the employment contracts of the members of the Executive Board.

#### **SEVERANCE PAY**

In accordance with best practice provision 3.2.3, the compensation for dismissal is a maximum of one year's salary (TRI). A severance payment will not be paid if the contract is terminated prematurely on the initiative of the member of the Executive Board or if the member has acted seriously culpable or negligent. Mr. Dehn has been granted a remuneration in 2018 that is in line with the aforementioned best practice provision. The reason for this payment is that, after Mr. Dehn has indicated that he does not wish to qualify for a subsequent term as from the General Meeting 2019, within the framework of safeguarding continuity within the Executive Board, it has been decided that Mr. Dehn retired from the Executive Board a year earlier.

## SUPERVISORY BOARD

### REMUNERATION

The remuneration aims at providing a competitive compensation of the members of the Supervisory Board on the basis of its activities, experience and the corresponding division of roles within the Board and its committees. The remuneration is periodically reviewed externally. The same reference group is used as for the Executive Board. The remuneration of a Supervisory Board member is not dependent on the results of the company. No shares and/or options to shares are granted to the members of the Supervisory Board. Any shareholdings of a Supervisory Board member are for long-term investment. Further information on the remuneration of the Supervisory Board and the possible share ownership of individual members is included in note 34 of the financial statements.

The General Meeting of Shareholders adopted the remuneration of the members of the Supervisory Board in 2015. An adjustment of the remuneration for adoption will be

submitted to the General Meeting of Shareholders 2019. The remuneration was externally reviewed on the basis of market conformity and the activities of the Supervisory Board, its chairman and the committees of the Supervisory Board. On this basis, it is proposed to increase the fixed remuneration for the chairman of the Supervisory Board from € 47,000 to € 60,000 per year from 1 January 2019 and the fixed remuneration of the members of the Supervisory Board from € 36,000 to € 45,000 per year. It is proposed to adjust the fixed remuneration for a member of the Audit Committee, for the chairman from € 8,000 to € 10,000 and every member from € 6,000 to € 7,000. It is proposed that a remuneration will be granted as per 1 January 2019 for membership in the Selection and Appointment Committee, € 8,000 for the chairman and € 6,000 for each member. The remuneration for the Remuneration Committee remains unchanged, for the chairman € 8,000 and every member € 6,000. Furthermore, it is proposed that, if circumstances require members of the Supervisory Board to perform substantially more than the normal activities, they will receive a remuneration of € 1,000 for each part of a day.



## INNOVATION STEP THROUGH KNOWLEDGE SHARING

TKH is one of the participants in the 'Operational Program East' in which industry and training institutions collaborate on technical solutions that make it possible to predict the parameters of complex product processes through modeling, simulation and system integration. The partners in this project have a lot of knowledge and expertise in their fields. Their strengths are being combined so that, through this partnership, the companies can take a major innovation step thanks to the knowledge institutions.

# CORPORATE GOVERNANCE AT TKH

TKH Group N.V. is a public limited company under Dutch law and voluntarily applies the limited two-tier entity regime. 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 Dutch Corporate Governance Code ('Code').

## CORPORATE GOVERNANCE STRUCTURE

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 Governance structure at TKH is based on Book 2 of the Dutch Civil Code, the company's articles of association, the Code and various internal regulations.

The main outlines of TKH's Corporate Governance structure, as well as compliance with or derogations from the principles and provisions, were discussed in the 2018 General Meeting of Shareholders. This section provides a substantiation of the most relevant principles and/or provisions and an explanation of the subjects in the Code from which the company deviates.

## 1 LONG-TERM VALUE CREATION

The strategy of TKH is outlined in the report of the Executive Board. Based on the IIRC value-creation model, the way in which the strategy leads to long-term value creation for stakeholders is detailed. This provides insight into the mutual relationships involved in the implementation of the strategy and the operations, as well as the capital employed to this end. This includes carefully considering the non-financial aspects of operations, such as the environment, social and personnel matters, and risk management, as well as the relevant interests of TKH stakeholders. Given that the aspects from the Code relating to long-term value creation

are covered in detail on pages 16 through 30 of the annual report, we refer to the relevant pages of the annual report for an explanation of these provisions.

## 2 EFFECTIVE MANAGEMENT AND OVERSIGHT OF EXECUTIVE BOARD

### Tasks and responsibilities

- The Executive Board is charged with managing the company. The Board develops a vision of long-term value creation and formulates an appropriate strategy, taking account of the acceptable risk profile. To implement the strategy, the Executive Board is responsible for achieving predefined objectives, results development, financing of the company and corporate social responsibility issues that are relevant to the company, such as the environment and social and personnel matters. The Executive Board involves the Supervisory Board early on when formulating and adjusting the strategy to realize long-term value creation, and is accountable to the Supervisory Board for its actions.
- The Executive Board is also responsible for compliance with all relevant primary and secondary legislation and for managing the risks associated with the company's activities through the adequate implementation of internal risk-management and auditing systems. Also the risks related to the strategy and the activities of the company are surveyed and analyzed, the risk appetite is established and measures are defined to counter the risks. The Executive Board is accountable to the Supervisory Board

for the effectiveness of the set-up and the functioning of the internal risk-management and risk-control systems.

## COMPOSITION

- The composition and size of the Executive Board are based on the company's corporate profile and strategy. The Executive Board comprises three members and is composed in such a way that the necessary expertise, background and competences are present to ensure the tasks are fulfilled adequately. The aim is that the composition of the Executive Board represents a good balance in terms of diversity of background, skills, nationality, work experience, age and gender. Owing to a combination of the aforementioned elements, the Executive Board currently comprises three male members. A requirement is stipulated to make efforts towards achieving a quota of at least 30% women and 30% men on the Executive Board of large companies, in so far as these seats are occupied by natural persons. The target percentage is not being achieved at the moment. In the vacancy that arose in the Executive Board in 2018, after an accurate selection procedure, the preference was stated for an internal candidate with the required competencies and experience within the markets and activities relevant to TKH. No suitable female candidates were found with equal suitability. For any future vacancies, gender diversity will be a key element, in addition to the quality, expertise and experience of the candidate. TKH shall continue to make every effort to increase gender diversity within the organization by

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## The Executive Board and the Supervisory Board attach great importance to compliance with the principles of integrity, accountability and transparency.

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factoring this in at recruitment and appointment, as well as during talent development within the context of succession planning. TKH has set itself the target of achieving a more balanced spread over the medium-term in terms of gender within the group strategic management. This group plays a key role in the strategic development of the TKH Group and acts as a sounding board for the Executive Board. Moreover, this group is relevant in the context of succession planning.

- The Executive Board has regulations that describe its tasks and its relationship with the Supervisory Board, the shareholders and holders of depositary receipts, the General Meeting of Shareholders and the employee representation body. It also contains rules relating to conflicts of interest in relation to the company. For practical reasons, the Executive Board has an internal division of duties, aimed at the responsibilities of individual members for specific functional and business areas.
- The Executive Board ensures a balanced and effective decision-making process, while taking account of the interests of all stakeholders. Providing clear information in good time is inextricably linked to this.

### Appointment, suspension or dismissal

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, with the proviso 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.

### Integrity and ethics

Integrity and ethics form the basic principles of the culture TKH strives for. Any form or appearance of a conflict of interest between the company and the Executive Board shall be avoided, and this shall represent exemplary conduct for the rest of the organization. TKH has a code of conduct that describes the preconditions for daily behaviour. Every employee is given a copy of the code of conduct and is expected to behave accordingly. In outline terms, the Code

is also discussed annually in the meeting between the Executive Board, the Supervisory Board and the Central Works Council. TKH also applies different systems to thoroughly embed risk awareness in the organization to prevent and manage risks as far as possible. In meetings with the responsible managers and controllers, TKH uses presentations and training to focus attention on ethics and integrity.

- The Executive Board is alert to signals from (suspected) wrongful conduct and irregularities and has established a procedure to allow the reporting of (suspected) wrongful conduct and irregularities and follows up conscientiously on these reports.
- There have been no transactions over the year in which a conflict of interest has been detected among either Executive Board members or Supervisory Board members as intended in best-practice provision 2.7.3 of the Code.
- Further the Company has not entered any transactions with either natural or legal persons who hold ten percent or more of the company shares, as intended in best-practice provision 2.7.5. of the Code.

TKH endorses the principles and underlying best practice provisions set out in the Code and relating to the Executive Board, and applies them, unless otherwise stated below.

- The provision with respect to the maximum term of appointment of four years (2.2.1) 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 1985 and was appointed to the Executive Board in 1998, well before the Code came into force. Mr. E.D.H. de Lange MBA has been employed by TKH since 1998 and was appointed to the Executive Board in 2008. TKH's point of view with respect to them both is that existing contractual agreements cannot be broken and that existing contracts of employment are respected and that limiting the term of appointment is not appropriate. For new Executive Board members to be appointed, a maximum term of appointment of four years is observed



in compliance with the best-practice provision for such cases. The best-practice provision applies to Mr. H.J. Voortman MSc. At the General Meeting of Shareholders on 3 May 2018, Mr. Voortman was appointed by the General Meeting of Shareholders for a term of four years by binding nomination by the Supervisory Board.

- In terms of the diversity policy for the Executive Board, the current composition deviates from the statutory target figure for a balanced distribution of seats between men and women in the Executive Board. A balanced distribution of seats is considered to be at least 30% women members and at least 30% men. TKH shall continue to make every effort to increase gender diversity within the Executive Board by expressly factoring this in at the selection and recruitment process, as well as during talent development within the context of succession planning.

#### Internal Audit

- TKH has set up a Internal Audit function, comprising the Director Internal Audit assisted by the Internal Auditor. The Director Internal Audit falls under the responsibility of the Executive Board and has direct access to the external auditor and to the Audit Committee. The Supervisory Board maintains oversight of the Internal Audit function, with this oversight being carried out for pragmatic reasons by the Audit Committee. One task of the Internal Audit function is to assess the set-up and the functioning of the internal risk management and control systems as per the COSO internal control framework.
- The provisions that relate to the Internal Audit service and function are endorsed by TKH and as such are implemented in the organization. Where necessary, the internal rules have been brought into line with these provisions. The independent position of the Internal Audit department is a continuing point for attention for further safeguarding the independence and objectivity of the Internal Audit function. To further professionalize the Internal Audit function, the IIA standards (Institute of Internal Auditors in the Netherlands) are used as a guideline.

## SUPERVISORY BOARD

### Tasks and responsibilities

- The Supervisory Board has the task of overseeing the way in which the Executive Board executes the strategy for long-term value creation and the general day-to-day business of the company and its affiliated businesses. The Supervisory Board also addresses the effectiveness of the company's internal risk management and control systems and the integrity and quality of the financial reporting. In performing its task, the Supervisory Board takes into account corporate social responsibility issues that are relevant to the company and supervises the relationship of the Board with shareholders. The Supervisory Board regularly discusses the strategy, the execution of the strategy and the most important related risks, and provides guidance to the Executive Board. In performing its task, the Supervisory Board is guided by the interests of the company and its affiliated businesses, taking into account the relevant interests of all stakeholders.
- The Supervisory Board ensures that it functions effectively. In accordance with the Code, the Board has installed a Selection and Appointment Committee, a Remuneration Committee and an Audit Committee to prepare the Board's decision-making process. It remains primarily the responsibility of the Supervisory Board as a body and the members of the Supervisory Board as individuals to obtain information and form an independent judgment.
- The allocation of tasks within the Supervisory Board, as well as the way of working of the Board, are established in its by-laws. The by-laws also include rules on handling actual or potential conflicts of interest of 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 members of the Executive Board and the Supervisory Board other than those issued by their 'own' company. Separate rulebooks have also been drawn up for the three Committees (Selection and Appointment committee, Remuneration Committee and

Audit Committee) that set out the role and responsibility of the committee, its composition and the way in which it carries out its task. The rules as well as the profile reflect the principles and best practice provisions to the extent that these are relevant to and applied by the company. Each Committee reports on the deliberations and findings to the Supervisory Board.

### Composition

- The Supervisory Board is set up in such a way that the necessary expertise, background, competences and independence are present to execute the tasks properly, and has drawn up a profile, taking account of the nature and activities of the TKH group. The composition of the Supervisory Board is such that the members are able to operate critically and independently of one another, the Executive Board and any particular interests.
- To ensure the independence of the Supervisory Board, the Board complies the independence criteria as stated in the Code and that which is stated elsewhere, including in the profile of the Supervisory Board.
- Among other matters, the profile addresses the aspects that are relevant tot 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. 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. Also expertise, competencies and backgrounds are well represented. Further information about the composition of and diversity within the Supervisory Board is provided in the 'Report of the Supervisory Board'. The current composition of the Supervisory Board is the point of departure for the annual evaluation by the Supervisory Board. The Supervisory Board currently consists of five members.

### Appointment, suspension or dismissal

With regard to the appointment of members of the Supervisory Board, 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, consultations with the Central Works Council shall be initiated.
- If the Supervisory Board and the Central Works Council fail to reach agreement, the Enterprise Chamber shall make the final decision.
- 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.
- A Supervisory Board member is appointed for a period of four years and may thereafter be reappointed for a period of four years. As per the Code and the articles of association of TKH, a member of the Supervisory Board

may thereafter be reappointed for a term of appointment of two years that may subsequently be extended by a maximum of another two years. Reappointment after a period of eight years is substantiated in the Report of the Supervisory Board. At appointment or reappointment, the profile as referred to in best-practice provision 2.1.1 is taken into account. 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 as well as a 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 members of the Executive Board concerning the functioning of the Chairman.
- TKH endorses the principles and underlying best-practice provisions as set out in the Code as they relate to the Supervisory Board and applies them.

### External auditor

- At the recommendation of the Supervisory Board, the General Meeting of Shareholders endorsed the appointment of Ernst & Young Accountants LLP (EY) as independent auditor for the financial years 2018 and 2019. The Audit Committee advised the Supervisory Board on this nomination and submitted a proposal, after which the Supervisory Board recommended the appointment of EY as independent auditor to the shareholders.
- The Supervisory Board oversees the performance of the external auditor, taking advice from the Audit Committee, which evaluates the performance of the external auditor annually and advises on the nomination of the external auditor. The Audit Committee shall meet with the external auditor as often as it considers necessary, but at least once a year, without the Executive Board being present.
- TKH endorses the principles and underlying best practice provisions as set out in the Code as they relate to the external auditor and applies them.

### REMUNERATION

- The remuneration policy for the Executive Board aims at providing a competitive compensation package to attract, motivate and retain qualified managers of a publicly listed company, while considering TKH's size and unique characteristics.
- Compensation for the Supervisory Board was most recently established by the General Meeting of Shareholders in 2015. In the 2019 General Meeting, an amendment to the remuneration of the Supervisory Board and its Committees will be proposed. The compensation of a member of the Supervisory Board is not dependent on the company results and reflects the time spent and the responsibilities of the function.
- With respect to the provisions in the Code relating to the remuneration policy and the remuneration report, we refer to the remuneration report, which forms part of the 'Report of the Supervisory Board', for an explanation of these provisions.

TKH endorses the principles and underlying best-practice provisions as formulated in the Code and applicable to remuneration, and applies them unless otherwise stated below.

- The Executive Board has a share purchase scheme in place and no option scheme. The share plan involves a financial compensation 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 this financial compensation for the members of the Executive Board, it is stipulated that the shares must be held for at least three years (3.1.2. v.i.). Given that this scheme requires a private investment obligation of the individual members of the Executive Board, the Supervisory Board is of the opinion that it is fair and reasonable that a term of three years is applied.

## 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 as set out in the Code as they relate to the shareholders and applies them. TKH follows the provision relating to stipulating a response time as stated in the Code but at the same time follows with great interest the developments of the wider public debate that has arisen regarding the functioning and effectiveness of the measures that companies can take to respond adequately to proposals for fundamental strategy changes that do the most justice to long-term value creation and the interests of all stakeholders.

## ISSUE OF DEPOSITORY RECEIPTS OF SHARES

- Stichting Administratiekantoor TKH Group ('Stichting Administratiekantoor') holds ordinary shares in the company. In exchange for these shares Stichting Administratiekantoor issues depositary receipts of those shares. The voting rights to the shares are vested in Stichting Administratiekantoor. If requested to do so by the holders of depositary receipts, Stichting Administratiekantoor must give them authorization to cast a vote, to the exclusion of Stichting Administratiekantoor, 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. Stichting Administratiekantoor 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 Stichting Administratiekantoor the voting right of a holder of a depositary receipt is fundamentally in conflict with the interest of the company. If Stichting Administratiekantoor avails of one of these possibilities, it must notify the holders of depositary receipts stating reasons.

- The company considers the issue of depositary receipts of shares as an important measure to safeguard the interests of shareholders, holders of depositary receipts and other stakeholders. This means that the company's intellectual property and thus also its commercial interest are protected, which is also important in terms of the long-term value creation for our stakeholders. Although the Code states that the issue of depositary receipts is not intended as a protective measure, TKH expressly chooses to take this form of protective measure and acts accordingly as per the applicable law as stated in Art. 2:118a of the Dutch Civil Code. This is in derogation to principle 4.4 of the Code.
- No depositary receipts have been issued for the cumulative preference financing shares, the cumulative preference protection shares, the priority shares or the registered shares. Further information about the company's capital structure as per provision 4.2.6 of the Code and in the sense of the decision Art. 10 Takeover Directive is included in the Section 'The TKH share' and in the notes to the company financial statements.

## Executive Committee of Stichting Administratiekantoor

- The Executive Committee of Stichting Administratiekantoor consists entirely of independent members. The Executive Committee does not include any (former) members of the Executive Board and Supervisory Board, employees or permanent advisers of the company.
- A member of Stichting Administratiekantoor Executive Committee may be appointed for two periods of four years and thereafter for a period of two years, followed by one more period of two years. Reappointment after eight years is substantiated in the Report of the Stichting

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## TKH endorses the principles and underlying best-practice provisions as formulated in the Code.

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Administratiekantoor Executive Committee. Stichting Administratiekantoor thereby follows the provisions of the Code.

## Exercising voting rights

- 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 holders of depositary receipts of shares the possibility of issuing a proxy to vote in accordance with the E-voting system prior to the General Meeting of Shareholders.
- Stichting Administratiekantoor exercises 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, and does not focus primarily on the interests of the holders of depositary receipts of shares when exercising its voting rights as defined in best-practice provision 4.4.5 of the Code. Stichting Administratiekantoor thus exercises its voting right in line with legal provision 2:118a, as described in more detail above under 'Issue of depositary receipts of shares'. In the General Meeting of Shareholders, the Executive Committee of Stichting Administratiekantoor may on request issue a statement of its intended voting conduct. This method of exercising its voting rights in relation to the shares derives from the function of 'Issue of depositary receipts of shares' as described above.

## CORPORATE GOVERNANCE STATEMENT

This is a statement concerning Corporate Governance as referred to in article 2a of the Decree on the content of the report of the Executive Board [Decision 'Inhoud Bestuursverslag'] (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 the Report of the Executive Board 2018 and are deemed to be included and repeated in this statement.

- The Corporate Governance Code applies to TKH. The information concerning compliance with the principles and best practice provisions from the Dutch Corporate Governance Code as required by article 3 of the Decree can be found in the chapter 'Corporate Governance';
- The information concerning the main features of the internal risk management and control systems relating to the financial reporting process of the TKH Group as required by article 3a sub a of the Decree can be found in the chapter 'Risk Management';
- Information regarding the functioning of the General Meeting and the main powers and rights of the shareholders and holders of depositary receipts of shares as required by article 3a sub b of the Decree, can be found in the chapters 'Corporate Governance' and 'The TKH Share';

- 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 chapters 'Corporate Governance', 'Report of the Supervisory Board' and 'Report of the Executive Board';
- The diversity policy regarding the composition of the Executive Board and the Supervisory Board, including the policy objectives, as well as the way in which the policy has been executed and the results of this over the last financial year (Art. 3a sub d of the Decree), as well as the measures to achieve the envisaged situation and over which term, are described in the chapters 'Corporate Governance', 'Report of the Executive Board' and 'Report of the Supervisory Board'.
- The information referred to in the Takeover Directive (Article 10) as required by article 3b of the Decree can be found in the chapters 'Corporate Governance' and 'The TKH Share' and in the notes to the company financial statements.

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



## MAXIMUM ECONOMIC PACKAGING

In collaboration with the freight forwarder, VMI has increased the efficiency of its logistics and on-site operations by packing and transporting modular parts of the machine line in exactly the right order in the containers so that they can be unpacked and assembled in the most efficient order at the point of arrival. Due to the modular structure, the size of the tire building machines has also been adapted and optimized, so that maximum economic packaging is achieved and fewer containers are required. The machines in the container are placed on skids. These are designed so that optimum use is made of the available space in containers. This results in huge savings in terms of space and cost, and a reduction in CO<sub>2</sub> emissions due to less transportation.

# RISK MANAGEMENT

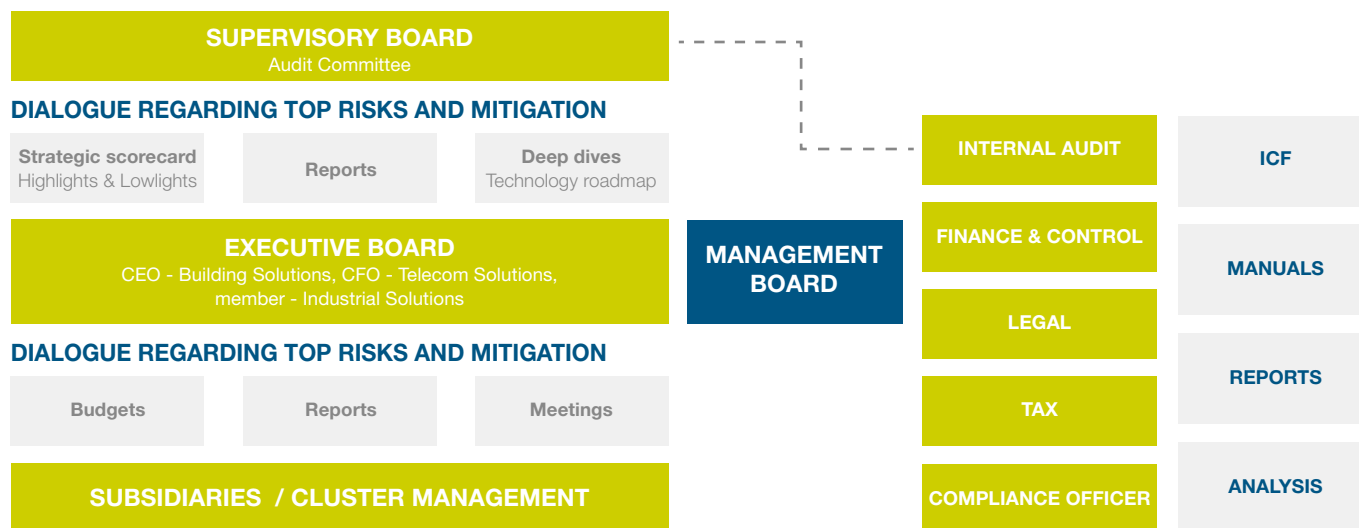
The Executive Board is responsible for compliance with all relevant primary and secondary legislation and for managing the risks associated with the company's activities through the appropriate implementation of internal risk management and auditing systems. This involves surveying and analyzing the risks related to the strategy and the activities of the company, establishing the risk appetite and defining the measures to be taken to counter the risks. The Executive Board is accountable to the Supervisory Board for the effectiveness of the set-up and the functioning of the internal risk-management and risk-control systems.

## RISK MANAGEMENT STRUCTURE

TKH has embedded its risk management policy in all levels of the organization. This involves the use of risk management and control systems, with the following being important components of this.

- An Internal Control Framework (ICF) is based on the 'Committee of Sponsoring Organizations of the Treadway Commission' (COSO 2013). This framework is used by TKH to analyze and evaluate the strategic, operational, financial & reporting and compliance risks for each subsidiary.
- The TKH Manual includes regulations and guidelines for decision-making procedures and authorities for the strategic management of our subsidiaries. It also contains guidelines concerning the cash and currency management (treasury policy), as well as various rules of conduct, such as an authority to sign policy, privacy policy, a code of conduct for employees and a whistleblower procedure. In addition, it contains guidelines for internal management and control measures including IT controls, internal and external financial reporting, insurance and how to deal with claims.
- At least once a quarter, the results, market and business developments, as well as (potential) risks identified for each subsidiary, etc. are discussed by the Executive Board and local management or the cluster management.

## RISK MANAGEMENT STRUCTURE





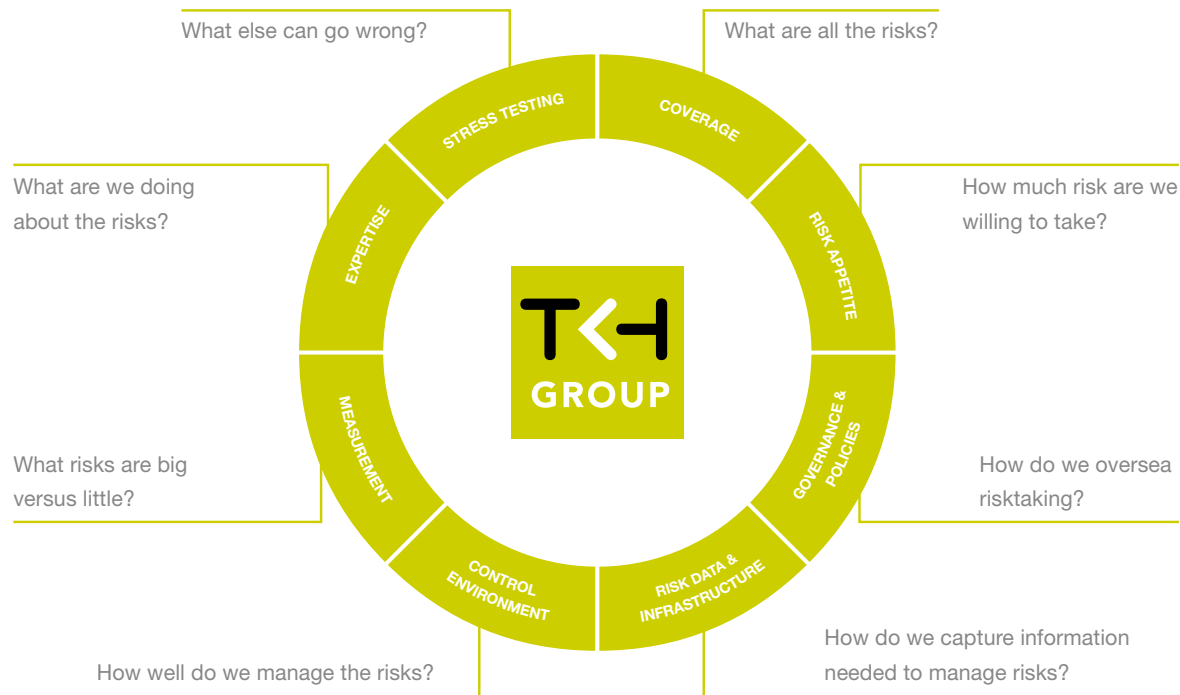
The risk management policy is tailored to the size and decentralized structure of TKH. The components of the TKH risk management policy are assessed by the Internal Audit department. Each subsidiary's main strategic, operational, financial, reporting and compliance risks are identified and analyzed and their potential impact on the subsidiary is determined. The results of these analyzes are discussed with the Executive Board. At least twice a year, the most important findings of this review by the Director Internal Audit are discussed with the Audit Committee of the Supervisory Board. The Executive Board, internal Legal Advisor, Director Finance & Control and the Compliance Officer also evaluate the risk management system. The design and operation of the internal risk management and control systems for external financial reporting are where relevant also assessed by the external auditor in the context of the audit of the financial statements. The outcomes of this and impact on the audit strategy are discussed with the Executive Board and the Audit Committee.

### RISK CULTURE

An open, transparent culture with sufficient critical capacity of the organization is a prerequisite for dealing properly with risks, responsibilities and competencies and for recognizing these in good time. The risk management policy and the risks are regularly reviewed and discussed within the Executive Board, Management Board, the Audit Committee and the Supervisory Board. TKH views a suitable risk-management model as an important tool which enables it to create value in the long-term.

TKH has a continuous focus on risk awareness as an integral part of the risk culture. The pursuit of a balanced risk profile is embedded in the risk culture by means of short lines of communication and is supported by a tight monitoring of agreed objectives by means of a comprehensive KPI dashboard and monitored by means of performance management.

## RISK CULTURE



Employees are expected to be aware of the core values of our actions and our risk profile and to feel responsible for the risks they take. They are also expected to adhere to TKH's culture principles and to act in accordance with the code of conduct. This code is fundamental to everything we do and describes how we act as a company, how we make decisions and how we deal with different dilemmas. The code of conduct is published on our website [www.tkhgroup.com](http://www.tkhgroup.com). A procedure for reporting misconduct has been put in place to enable people to report any suspicion of unlawful conduct. Reports will be reviewed and investigated, where necessary by the local Legal Advisor

and/or the Central Compliance Officer. Where deemed necessary, disciplinary and mitigating measures are taken (for more information, see the section on Corporate Social Responsibility in the annual report).

### DEVELOPMENTS IN 2018

In 2018, there were no significant risks and uncertainties that had a significant impact on TKH. General risks that may apply and therefore have an important impact on TKH have been mentioned in this annual report. The internal risk management system was again 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, the primary processes for the most important subsidiaries were included in the Internal Control Framework in 2018. This has become part of the periodic financial reporting. The other processes and remaining subsidiaries will be integrated into the Framework in 2019.

The reporting year 2018 was also marked by strong growth in both turnover and profit, as a direct consequence of our strategy of translating unique technologies into smart solutions for our customers. The expected growth materialized in 2018, partly as a result of the focus on our four core technologies and seven vertical growth markets. Further challenges that also apply are part of the risk management agenda:

- **Technology and innovation:** The success of the R&D developments is vitally important for the long-term value creation of TKH. One of the challenges facing TKH in this context is the time-to-market of R&D developments and the availability of sufficiently qualified personnel (developers and engineers).
- **IT & Security:** For subsidiaries that are important in the context of the execution of the TKH strategy, determined on the basis of size, technology and risks such as privacy and reputation for example, the risks have been identified and recommendations have been made to further mitigate these risks. These risks and their follow-up are frequently discussed with the Executive Board and the Audit Committee. A number of security incidents occurred during the year under review. However, these incidents have not resulted in data leaks or significant and permanent damage but do confirm that increased attention remains necessary.
- **Subsea:** Specific attention has been paid to the process associated with the production of subsea cable systems. Because this is a new and innovative process for developing a distinctive subsea cable portfolio, there was

still a learning curve in 2018 in terms of production efficiency and quality associated with the new technology, waste processing and the utilization of capacity at the production location. The degree of management involvement is therefore significantly higher.

- **Parking guidance systems:** Projects in the field of parking guidance systems were closely monitored. In 2017, one-off costs were incurred to upgrade the technology for parking guidance systems at a number of locations. As a result, the project controls were tightened and other (organizational) changes were successfully implemented. The progress of the implementation of these improvements was closely monitored in 2018.
- **CEDD airfield ground lighting:** In this segment, the costs are still slightly higher than the benefits. Due to investments in the development of the airfield ground lighting portfolio, costs were not yet normalized in 2018. The degree of management involvement is therefore significantly higher.
- **Tire building systems:** Based on the order intake for 2018 and the current order book, the activities within manufacturing systems continue to move at a high level and a further capacity expansion has been realized. The share of the top 5 tire manufacturers in the order intake also increased further. This is accompanied by challenges in the context of order processing time and available engineering capacity.

During the reporting year, further attention was also paid to the new privacy legislation. It appears from risk analyses that awareness within the organization and among employees can be further increased. No significant data leaks occurred.

TKH is active worldwide through several reporting entities. It is important that these entities report on the basis of the same financial principles and provide the same high quality of reporting, in line with the TKH Reporting Manual. During the reporting year, thorough attention was devoted to the implementation of new reporting standards in the field of revenue recognition (IFRS 15) and financial instruments



(IFRS 9). In addition, analyses were performed and preparations were made for the implementation on 1 January 2019 of the new reporting standard in the field of leases (IFRS 16).

Due to the growth of TKH, and to ensure sufficient control of the Internal Control Framework and other risk management components, the Internal Audit function was expanded at the end of 2017 to include an Internal Auditor. This also provides a better guarantee of independence within the activities of Internal Audit. For specific themes, external specialists are used on a project basis. For further professionalization of the Internal Audit function, the guidelines of the Institute of Internal Auditors ('IIA') are consulted.

## RISK PROFILE AND RISK APPETITE

The most important risks have been identified and clustered into four categories: strategic risks, operational risks, financial and reporting risks and compliance risks. For each risk we then appraise the possible impact on the organization and the probability that this risk will occur. The impact includes financial and non-financial factors such as reputation.

It is the duty of the Executive Board to weigh the business opportunities against 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 explicitly sought between acceptable risk on the one hand and the entrepreneurship conducted in the context of long-term value creation on the other.

## RISKS AT A GLANCE

RISK AREA	RISK	RISK DESCRIPTION	RISK TREND	RISK APPETITE
STRATEGIC	1. MARKET & GEOPOLITICS	Influence of global economic and geopolitical developments on the execution of the strategy and financial position and results of TKH.	▲	●
	2. TECHNOLOGY & INNOVATION	Threat to TKH long-term value creation due to insufficient technology development and innovation.	▲	●
	3. M&A AGENDA	Failure to successfully integrate and divest (acquired) companies can result in lower than expected profit contribution and the risk of impairment.	▬	●
OPERATIONAL	4. PROJECT MANAGEMENT	Risk of projects not being delivered according to specification, agreements and planned margins.	▲	●
	5. IT & SECURITY	Risk of breach of data availability, confidentiality and integrity (including IP).	▲	●
	6. PERSONNEL	Shortage of well-qualified staff and inability to retain qualified staff.	▲	●
FINANCIAL AND REPORTING	7. CURRENCIES	Volatility of currencies which puts pressure on profit margins.	▬	●
	8. RAW MATERIAL PRICES	Volatility of raw material prices which puts pressure on profit margins.	▬	●
	9. REPORTING	Risk that TKH's reporting contains material errors.	▬	●
COMPLIANCE	10. COMPLIANCE	Damage (including reputation) due to violation of legislation and regulations.	▬	●
	11. TAX	Damage (including reputation) due to violation of tax legislation and regulations.	▬	●

▲ increased   ▬ equal   ▼ decreased

● averse   ● low   ● medium   ● high

# OUR MAIN RISKS

## STRATEGIC

### MARKET & GEOPOLITICS

Influence of global economic and geopolitical developments on the execution of the strategy and financial position and results of TKH. Economic and political confrontations between world powers (trade tariffs) and the erosion of trade agreements can impact TKH's turnover and results.

#### SPECIFIC RISK MITIGATION MEASURES

- Spread of activities across multiple product/market combinations.
- Internal efficiency programs and cost reduction programs.
- Flexible shell by making use of temporary staff and by outsourcing the production of mainly commodity products.
- Geographical spread across Europe, North America and Asia.
- Strong financial balance sheet and position.

#### PLANNED ACTIONS IN 2019

- Further risk analysis during strategy execution.

RISK APPETITE ●

RISK TREND ▲

### TECHNOLOGY & INNOVATION

Insufficient technology development and innovation can threaten TKH in terms of long-term value creation. These risks may arise in the field of:

- Speed of technological developments.
- Execution of R&D roadmap.
- New technologies of competitors.
- Payback capacity.
- Harmonization of niche specifications to produce standard commodity solutions.

#### SPECIFIC RISK MITIGATION MEASURES

- Realize at least 15% of the turnover with innovations that have been introduced in the two previous years.
- Continuous focus on innovation and the (execution of the) R&D roadmap.
- Approximately 4% of the turnover is spent on R&D.
- Focus on vertical growth markets.

#### PLANNED ACTIONS IN 2019

- A greater focus will be placed on the time-to-market of R&D developments.
- Continuous attention is paid to the effectiveness of R&D expenditure, the execution of the roadmap and further integration of technologies.

RISK APPETITE ●

RISK TREND ▲

### M&A AGENDA

Failure to successfully integrate and divest (acquired) companies can result in lower than expected profit contribution and the risk of impairment.

#### SPECIFIC RISK MITIGATION MEASURES

- Procedures and guidelines for the implementation of a due diligence process.
- Rapid integration in the TKH reporting and control systems.
- Harmonization of business processes and systems where necessary and desirable.
- Continuous attention to the identification, creation and utilization of synergy effects.

#### PLANNED ACTIONS IN 2019

- Continuous focus on portfolio management, taking into account the correct alignment of companies and acquisitions with the TKH strategy.

RISK APPETITE ●

RISK TREND ▬

# OPERATIONAL

## PROJECT MANAGEMENT

Inadequate project management can result in the risk that projects are not delivered according to specification, agreements and planned margins. This risk particularly concerns:

- Integration of solutions into a total solution.
- Complex and extensive projects.
- New and innovative processes.

### SPECIFIC RISK MITIGATION MEASURES

- Investment in qualified employees.
- Training and education of employees.
- Guidelines and procedures with regard to project management and effective project administration.
- Important projects are discussed at quarterly meetings between the Executive Board and local management.
- Large projects with an above-average risk are monitored on a regular basis, if necessary with increased involvement of the Executive Board and/or Management Board.

### PLANNED ACTIONS IN 2019

- Attention for important 2019 projects. These will also be discussed at quarterly meetings between the Executive Board and local management.
- Experiences are constantly evaluated and included in the risk model, which can lead to a tightening of acceptance criteria.

RISK APPETITE ●

RISK TREND ▲

## IT & SECURITY

IT & Security concerns the risk of breach of data availability, confidentiality and integrity (including IP). This includes cyber-attacks that infringe on data and money and cyber-attacks that disrupt business operations and infrastructure.

The following elements are important in this respect:

- Decentralized IT landscape.
- Various ERP systems in use.
- Availability of production sites.
- Protection of developed technologies (IP protection).
- New privacy legislation.

### SPECIFIC RISK MITIGATION MEASURES

- 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.
- Companies from the same region or cluster are stimulated to generate economies of scale in the ICT field.
- IT managers from the most important subsidiaries discuss important IT developments, trends and risks.
- The internal and external security environment is tested by a specialized external agency.
- Internal guidelines on treatment of privacy.
- The Internal Audit department oversees the implementation of the new privacy guidelines.
- For subsidiaries with a high and medium risk in this area, based on size, technology and reputation for example, the risks were identified and recommendations were made to further mitigate these risks. These risks and the monitoring of risk management are frequently discussed with the Executive Board and the Audit Committee.

### PLANNED ACTIONS IN 2019

- IT audits at subsidiaries will again be carried out in 2019. Increased attention will also be paid to following up the recommendations made in 2018.
- Workshops and knowledge meetings will be organized on current themes, partly to raise internal awareness.

RISK APPETITE ●

RISK TREND ▲

## PERSONNEL

Scarcity of well qualified employees and inability to retain qualified employees can impact the (progress of the) execution of TKH's strategy.

### SPECIFIC RISK MITIGATION MEASURES

- Performance/Talent management program per subsidiary.
- Management Development Program.
- Regular employee satisfaction surveys.
- Use good reputation as an attractive employer to recruit talented employees.
- Cooperation programs between subsidiaries and with training institutes.

### PLANNED ACTIONS IN 2019

- In 2019, various specific programs were set up to draw attention to diversity within the organization.
- In order to recruit new talent, TKH will intensify contacts with business schools and universities.
- When recruiting external candidates, we increasingly use referral recruitment, asking employees to nominate new colleagues.
- We will continue to pay special attention to vitality and health and will roll out the vitality program to other subsidiaries in 2019.

RISK APPETITE ●

RISK TREND ▲



# FINANCIAL AND REPORTING

## CURRENCIES

Volatility of currencies which puts pressure on profit margins.

### SPECIFIC RISK MITIGATION MEASURES

- Treasury Statute that establishes the currency risk management, including responsibilities, authorizations and reports.
- Material exchange rate risks are hedged in accordance with the Treasury Statute if these risks cannot be passed on in the market.
- 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.
- 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.

### PLANNED ACTIONS IN 2019

- Constant attention is paid to exchange rate developments.

RISK APPETITE ●

RISK TREND ==

## RAW MATERIAL PRICES

Volatility of raw material prices which puts pressure on profit margins.

### SPECIFIC RISK MITIGATION MEASURES

- Economic stock positions are limited as far as possible.
- The copper positions of each subsidiary are monitored for the economic stock positions, stock prices, rate of turnover and expected relationship between copper prices and selling prices (price elasticity).
- 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.
- Every month price developments, economic stock positions and hedges are discussed by a committee made up of members from various disciplines and chaired by TKH's CFO.
- Derivatives are used to a limited extent to hedge the price risk on free inventories.
- Important, strategic raw materials such as copper are purchased forward in order to eliminate price risks on the sale of finished products, if:
  - A sales contract is concluded at a fixed price;
  - Delivery does not take place within one month; and
  - A significant amount of raw material is needed for the production.

### PLANNED ACTIONS IN 2019

- Constant attention is paid to raw material price developments.

RISK APPETITE ●

RISK TREND ==

## REPORTING

Risk that TKH's reporting contains material errors. These reporting risks mainly relate to the following material items in the financial statements:

- Turnover – time of recognition of turnover.
- Goodwill – valuation and impairment testing.
- Development costs – valuation and impairment testing.
- Inventory – valuation and provision.
- Contract assets and liabilities – valuation and provision.

### SPECIFIC RISK MITIGATION MEASURES

- Internal procedures and guidelines for internal and external financial reporting and verification of reports.
- TKH has drawn up guidelines containing requirements with regard to the capitalization of development costs.
- Controller meetings are regularly organized with important reporting topics being discussed.
- Training and education of (financial) employees.
- The performance of regular impairment testing, including the annual strategic plans.
- Deployment of 'Business Intelligence' tools to gain insight into risks at an early stage.
- Representation letter and In-Control Statement for each subsidiary.

### PLANNED ACTIONS IN 2019

- The TKH Manual will be completely updated in 2019.
- Specific attention will be paid to the implementation of IFRS 16 Leases.
- Further increase of internal awareness with respect to TKH guidelines by providing training materials and tools to subsidiaries. A controller meeting will be organized in 2019 to discuss important and current issues.

RISK APPETITE ●

RISK TREND ==

# COMPLIANCE

## COMPLIANCE

Non-compliance due to violation of legislation and regulations can result in damage (including to reputation). In addition to national and international legislation and regulations, this also applies specifically to:

- Export and sanction regulations.
- Unfair competition.
- Fraud, corruption and bribery.
- Human rights and child labour.
- Environment.
- Working through agents and intermediaries.
- TKH code of conduct and code of supply.

### SPECIFIC RISK MITIGATION MEASURES

- Internal guidelines relating to, for example, internal control measures, responsibilities and authorization requirements of the management.
- Internal guidelines regarding compliance with sanction regulations, including a procedure in respect of supplies to sanctioned countries.
- Monitoring of financial flows by TKH in part by monitoring:
  - the transactions executed through the central treasury system;
  - the establishment of banking authorizations;
  - the setting of credit limits for each subsidiary, with no local credits being permitted with banks outside TKH's banking group, unless TKH has granted permission for this.
- The use of banks prescribed by TKH unless another bank is required at the local level because only a local bank is able to perform the required service.
- During controller meetings and the international management meeting, attention is paid to the issues of fraud, corruption and bribery by means of theory and case studies.

- The work with agents and intermediaries is framed by guidelines and contracts.
- By means of the TKH code of conduct, our employees are aware of how they should do business honestly and by signing this have agreed to act accordingly.
- In all layers of our company compliance with internal guidelines relating to integrity and behaviour is strictly monitored (zero tolerance).
- The Internal Audit department audits non-financial data and compliance with the TKH code of supply by strategic suppliers.
- A risk-averse culture is an important condition in the context of risk management and the prevention of risks.
- Corporate social responsibility is integrated into the strategic agenda and embedded in the day-to-day operations.

### PLANNED ACTIONS IN 2019

- In 2019, the Internal Audit department will conduct more audits of non-financial data, including the realization of corporate social responsibility objectives and compliance with the TKH code of supply by strategic suppliers.
- Further increase of internal awareness with respect to TKH guidelines by providing training materials and tools to subsidiaries. In 2019, a controller meeting will be organized to discuss important and current issues such as export and sanction regulations, fraud, corruption and bribery.
- For the European subsidiaries that belongs to a defined scope the energy audit is on the agenda for 2019.

RISK APPETITE ●

RISK TREND ==

## TAX

Non-compliance due to violation of tax legislation and regulations can result in damage (including to reputation).

### SPECIFIC RISK MITIGATION MEASURES

- Centralized monitoring of compliance and developments in (new) legislation and regulations in the tax field (both national and international), sanction regulations and general legal developments, with attention to specific risks in the areas of transfer pricing, permanent establishment and VAT.
- Availability and development of transfer pricing documentation in accordance with OECD guidelines as well as compliance with local regulations.
- Periodic monitoring of the financial performance of subsidiaries in line with the transfer pricing documentation.
- Develop good relations with tax authorities based on mutual respect, transparency and trust. In the Netherlands, a horizontal monitoring covenant has been concluded with the Dutch Tax Administration in this context.
- Make use of external (tax) advisors with regard to specialist subjects.
- Roll-out of a Tax Control Framework.
- Tax reports, including standardized tax reporting packages for determining the tax position, which are also used for determining the tax position in the financial statements as well as 'Country-by-Country' reporting.

### PLANNED ACTIONS IN 2019

- Continuous attention is paid to compliance in the field of taxation.
- Further optimization and deepening of the monitoring tool on applied transfer pricing.

RISK APPETITE ●

RISK TREND ==

## OTHER RISKS

In addition to the most important risks referred to above, other risks have been identified that are also included in TKH's internal risk management system. This includes among other things the following risks:

### STRATEGIC

- Limited market share and brand awareness in a number of sub-segments and geographical markets.
- Dependence on government measures in some markets.
- Dependence upon customers and suppliers in a number of sub-segments.

### OPERATIONAL

- Calamity within production facilities.
- Important raw materials and technical components are unavailable or available in limited quantities.

## FINANCIAL AND REPORTING

- Infringement of IP rights of and by third parties.
- Inadequate funding.
- Interest rate volatility.

### 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. A sensitivity analysis is also included.

In the financial statements, including in note 21, the objectives and policy of TKH are outlined with regard to the use of financial instruments for risk management, also in the context of hedging the risks associated with all major types of transactions to which TKH is exposed as regards capital, liquidity, interest, currency, credit and price risks.

### GOING CONCERN AND PROSPECTS

We have prepared a budget that includes projections of cash flows and liquidity requirements for the coming year.

This forecast takes into account current market conditions, possible changes in results based on these conditions, as well as our ability to change our cost structure as a result of changing economic conditions and turnover levels. In the budget we have also taken account of the total available cash and cash equivalents of € 83.2 million as at 31 December 2018, the possibility of renewing financing agreements and attracting additional financing, and whether we operate within the financial ratio agreed with the banks in the covenant. On this basis, we believe that our available funds at the end of 2018 will be sufficient to finance our activities, investments and existing contractual obligations for at least the next twelve months.

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**TKH has a continuous focus on risk awareness as an integral part of the risk culture.**

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## QUANTIFICATION OF RISKS

	MOVEMENT	IMPACT	ON	ASSUMPTIONS (based on 2018 financial statements)	CONCERNS RISK
Turnover	1%	€ 7.4 million	EBITA	No adjustment of operating costs.	1, 2, 3, 7, 8
Raw material price copper	10%	€ 2.6 million	EBITA	No derivatives to hedge price risks.	8
Gross margin	1%	€ 16.3 million	EBITA	No adjustment of operating costs.	1, 2, 3, 7, 8
Operating costs	1%	€ 6.0 million	EBITA	No adjustment of turnover/gross margin.	operational and financial risks
Currencies - financial instruments	10%	€ 3.6 million	Operating profit before taxation	All other variables remain constant.	7
Currencies - financial instruments	10%	€ 22.6 million	Shareholders' equity	All other variables remain constant.	7
Interest	1%	€ 3.0 million	Operating profit before taxation	Net bank debt including deduction of interest rate swaps held at variable interest rates.	financial risks
Interest - financial instruments	1%	€ 1.1 million	Shareholders' equity	Based on concluded interest rate swaps.	financial risks

# MANAGEMENT STATEMENT

The Executive Board 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.

In the year under review, Internal Audit checked the administrative organization and internal control of subsidiaries. Attention was paid to the most important risks and actual themes. The Director Internal Audit discussed the results of his activities with the Executive Board and reported the results to the Audit Committee. From the activities, no material findings on group level were found concerning the administrative organization and internal control.

Based on the financial results for the 2018 financial year and the expectations for the 2019 reporting year, the Executive Board has assessed the continuity assumptions of the company.

The Executive Board assesses the strategic, operational, financial and reporting risks 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'.

An explanation of the non-financial information in accordance with the Decree on disclosure of non-financial information

is stated in the report of the Executive Board in the chapters 'Corporate Social Responsibility', 'Personnel and Organization', 'Remuneration Report', 'Risk Management', 'Corporate Governance' and 'Report of the Supervisory Board'.

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 I.4.3. of the Dutch Corporate Governance Code, the Executive Board declares that to the best of its knowledge:

- i. the report provides sufficient insight into potential material shortcomings in the functioning of the internal risk management and control systems, if these have occurred;
- ii. the above-mentioned systems provide a reasonable assurance that the financial reporting does not contain any errors of material importance;
- iii. with the current state of affairs it is justified to prepare the financial reports on a going concern basis; and

iv. the report states the material risks and uncertainties that are relevant to the expectation of the company's continuity for a period of twelve months after preparation of the report.

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 management report gives a true and fair view of the situation on 31 December 2018, the state of affairs at TKH and its affiliated companies during 2018, 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, 4 March 2019

J.M.A. van der Lof MBA, *Chief Executive Officer*  
E.D.H. de Lange MBA, *Chief Financial Officer*  
H.J. Voortman MSc, *member*

# THE TKH SHARE

TKH's shares are listed on and admitted to the trade of the Euronext Amsterdam stock exchange. They have been assigned to the Mid Cap index (AMX).

In addition, TKH shares are also listed in the Next 150 Index established by Euronext.

## OPTIONS ON SHARES

The options on shares in the TKH Group (ticker symbol: TKG) are listed on NYSE Liffe, the European derivatives business of Euronext. The options expire on the third Friday of the contract month and their initial term is one to nine months. Each option represents 100 TKH shares.

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TKH aims for an attractive return for its shareholders, which is also reflected in an appropriate dividend policy.

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## TKH'S SHARE STRUCTURE

- With the exception of registered shares, ordinary shares in the company are transferred by notarial deed to Stichting Administratiekantoor TKH Group ('Stichting Administratiekantoor'). In exchange for these shares Stichting Administratiekantoor issues depositary receipts of shares. The voting rights to the shares are vested in Stichting Administratiekantoor. If requested to do so by the depositary receipt holders, Stichting Administratiekantoor authorizes them to cast a vote to the exclusion of Stichting Administratiekantoor based on the shares for which the holder has depositary receipts in the General Meeting specified in the relevant proxy. The authorization is not restricted and is therefore not subject to any conversion limit. Under the terms of Section 2:118a of the Dutch Civil Code, Stichting Administratiekantoor is not required to issue a proxy and may revoke one. The protection afforded by the use of depositary receipts is based on the 1% rule. The depositary 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.
- Priority shares are managed by the foundation, Stichting Prioriteit, which comprises the company's Executive and Supervisory Board members. The foundation may not alienate, pledge or otherwise encumber shares. No special rights have been assigned to priority shares.
- By means of a call option TKH has conferred on Stichting Continuïteit the right to acquire cumulative protective preference shares in TKH subject to a maximum of 50% of the amount of the other shares outstanding at the time of

placement of the protective shares or 100% where the limitation on conversion of depositary receipts ceases to apply.

At the end of 2018 the company's issued share capital amounted to 42,821,763 ordinary shares issued at a nominal value of € 0.25, of which depositary receipts have been issued for 42,681,518 and 4,000 are priority shares with a nominal value of € 1.00. At the end of 2018 the company held 819,056 (depositary receipts of) shares. Further information on the capital structure of TKH is included in note 7 of the company financial statements. This information is part of the management report by means of a reference.

The dividends for 2018 were issued to the holders of (depositary receipts of) shares in cash.



The following key figures per ordinary share (or depositary receipt issued for same) apply in relation to the listing on Euronext Amsterdam.

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

	2018	2017
Annual turnover of shares	20,214,598	27,659,880
Highest price	€ 60.15	€ 58.68
Lowest price	€ 38.36	€ 36.45
Closing price	€ 40.70	€ 52.93
Net earnings per share	€ 2.58	€ 2.05
Dividend	€ 1.40	€ 1.20
Price-earnings ratio as at the end of the financial year	15.8	25.5
Dividend yield on closing price	3.4%	2.3%
Market capitalization at end of financial year (in € millions)	1,709.5	2,225.4

#### DISCLOSURE OF OWNERSHIP AND EQUITY INTERESTS

In accordance with the requirements governing the disclosure of ownership and equity interests, any interests in a company's issued share capital of 3% or more must be reported to the Netherlands Authority for the Financial Markets (AFM). In so far as TKH is aware and based on the AFM register 'Substantial subsidiaries and gross short positions' (Substantiële deelnemingen en bruto shortposities) the following investors hold an interest of 3% or more in TKH. The table below is based on disclosures until 4 March 2019.

Mandatory Disclosing Party	Interest	Date of Last Disclosure
Allianz Global Investors GmbH	10.01%	15-09-2017
ASR Nederland NV	5.11%	06-10-2008
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
NN Group NV	3.05%	17-08-2018
Teslin Participaties Coöperatief U.A.	5.01%	06-07-2017

#### 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%.

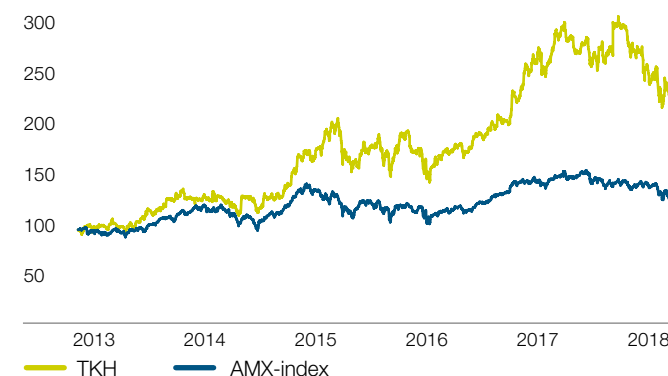
#### SHARE ISSUES

Shares are issued pursuant to a decision taken by the Executive Board. The decision is submitted to the Supervisory Board for its approval. The extent of this power on the part of the Executive Board is determined by means of a resolution adopted by the General Meeting and does or will not exceed the equivalent of all of those shares in the company's authorized capital which have not yet been issued. During the General Meeting held on 3 May 2018 this power was extended until 3 November 2019. The directive applies to the issue of ordinary shares and cumulative financing preference shares – which is deemed to include the issue of rights to acquire shares and the limitation or exclusion of preference rights – subject to a total equivalent of no more than ten per cent (10%) of the total nominal value of the outstanding shares at the time of issue, provided that the issue occurs for general purposes, plus ten per cent (10%) of the total nominal value of the outstanding shares at the time of the issue, provided that the issue occurs for the purposes of a merger, acquisition or strategic collaboration. To the General Meeting of 6 May 2019 it will be proposed that the authority to issue ordinary shares and cumulative preference financing shares jointly apply up to a total of 10% of the total nominal value of the issued shares at the time of issue.

#### PURCHASE OF OWN SHARES

Subject to specific conditions stipulated in the company's articles of association and acting pursuant to a decision taken by the Executive Board, the company may acquire (depository receipts of) shares in its own capital in return for valuable consideration being a price equivalent to the sum of, on the one hand, the nominal value which they represent or, on the other, one hundred and ten per cent (110%) of their listed price. The decision is submitted to the Supervisory Board for its approval. During the General Meeting held on 3 May 2018 the power for the company to acquire shares in its own capital was conferred on the Executive Board for a period of 18 months as of that date. Amongst other things, this authorization may be utilized for the purposes of purchasing shares for share and option schemes.

#### PRICE INDEX TKH / AMX-index



## EMPLOYEE STOCK OPTION AND SHARE PURCHASE SCHEMES

Every year option rights on (depository receipts of) ordinary TKH shares are awarded to the management of TKH and its subsidiaries. Such options may not be exercised until after disclosure of the company's annual figures following a waiting time of three calendar years after the year in which those options were awarded and they may be exercised within a period of two years. The conditions governing participation are set out in internal regulations to which the participants have consented in writing.

No employee options are awarded to members of the Executive Board but a share scheme applies in relation to them.

## PREVENTION OF INSIDER TRADING

In order to ensure that any person who is deemed to be an insider within TKH does not engage in insider trading, TKH has introduced regulations to comply with the European Market Abuse Regulation (EU No. 596/2014 – "MAR"). That group of people has consented in writing to act in accordance with those regulations. The Company Secretary serves as Compliance Officer and oversees appropriate compliance with the legislation and regulations governing insider trading and other compliance risks.

## INVESTOR RELATIONS POLICY

TKH's investor relations policy is designed to ensure that actual and potential shareholders, analysts and other financial stakeholders are provided with relevant, strategic, financial and other material information as accurately, carefully and punctually as possible, so as to afford them an insight into our company, current developments and the markets in which we operate. We maintain frequent contact with major and other shareholders, interested institutional investors and analysts through roadshows, conferences, company visits and one-on-one discussions. All publications, presentations, meetings, other announcements (non-financial or otherwise), appoint-

ments and explanations occur subject to the applicable regulations and guidelines issued by Euronext Amsterdam and the Netherlands Authority for the Financial Markets (AFM), the Dutch financial markets regulatory authority. In this respect care is taken to ensure that such information is equally and simultaneously supplied to all stakeholders and that it is readily accessible. By means of the annual report, the interim report, webcasting, the website and through financial reporting, we strive for transparent reporting.

## INVESTOR RELATIONS

J.M.A. van der Lof MBA, *Chairman of the Executive Board*  
E.S. Velderman MBA, *Director Corporate Development*

More information is available about TKH and its subsidiaries on its website at [www.tkhgroup.com](http://www.tkhgroup.com) or through the Company Secretary, Mrs. R. Dieperink MBA.

## KEY DATES

6 May 2019	General Meeting of Shareholders
8 May 2019	Ex-dividend
9 May 2019	Record date
13 May 2019	Dividend payable
13 August 2019	Publication interim results 2019



## EFFICIENT OPTICAL FIBRE DRAWING SPEEDS

In 2012, TKH invested in a new generation of optical fibre drawing towers in China. This allows optical fibre to be drawn at a speed of 2,500 meters/minute, which was at that time the world's highest optical fibre drawing speed and doubles production efficiency. The machines consume 150 kW per hour, of which half is used for curing the protective plastic coating of the fibre. The possibility of replacing conventional UV systems based on mercury lamps with LED UV units was investigated. One of the advantages of LED is that the conversion of electricity into light is much more efficient than with conventional systems. In the end, it turned out that LED UV could save 80% on the curing power, which reduced the total power capacity needed to draw the fibre to 85 kW per hour. Based on 4 million kilometres of fibre, this means a reduction in the annual electricity consumption of 2,200 MWh. What's more, due to the better conversion efficiency, no forced cooling of the lamps is required, which reduces the noise level in the working environment by about 10 dB.

# STICHTING ADMINISTRATIEKANTOOR TKH GROUP

In accordance with the provisions of Article 9 of the Trust Terms and Conditions governing the shares of TKH Group N.V., as last amended on 16 April 2018, we wish to report on the activities during the year under review, 2018, related exclusively to the administration of shares for which depositary receipts have been issued.

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## EXECUTIVE COMMITTEE OF STICHTING ADMINISTRATIEKANTOOR TKH GROUP

Stichting Administratiekantoor's Executive Committee currently has three independent members:

- Mr. H.L.J. Noy, *chairman*
  - Mr. J.S.T. Tiemstra
  - Mr. G.W.Ch. Visser
- 

The total nominal value of the ordinary shares of TKH Group N.V. held in administration amounted to € 10,670,379.50 on 31 December 2018, in exchange for which 42,681,518 depositary receipts of shares<sup>1</sup> with a nominal value of € 0.25 each have been issued.

The objective of Stichting Administratiekantoor TKH Group (Stichting Administratiekantoor) is to acquire and administer registered shares in the public limited company TKH Group N.V. which has its seat in Haaksbergen and to hold them for management in exchange for issuing exchangeable bearer depositary receipts of shares. Stichting Administratiekantoor 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. Hollandsch Administratiekantoor B.V. in Amsterdam was the administrator of Stichting Administratiekantoor. On 10 September 2018 Hollandsch Administratiekantoor B.V. merged with SGG Financial Services B.V. and the administration was continued by SGG Financial Services B.V. from that date.

### MEETINGS OF THE EXECUTIVE COMMITTEE

The Executive Committee of Stichting Administratiekantoor met three times during the financial year. At the meeting on 29 March 2018 the topics on the agenda of the 2018 General Meeting of Shareholders were discussed and the Executive Board of the company provided an explanation of the TKH 2017 annual report. Stichting Administratiekantoor's 2017 financial statements were also discussed, approved and subsequently adopted. The meeting formally adopted the amendments to the articles of association and the trust terms and conditions of Stichting Administratiekantoor, after which the deeds were executed on 16 April 2018, taking into account the relevant provisions of the articles of association. The provisions of the Dutch Corporate Governance Code affecting the issuing of

depositary receipts of shares were once again discussed, also with specific mention of Stichting Administratiekantoor's legal authority not to grant proxies or revoke a particular proxy under certain situations prescribed by law. In this respect, it was determined once again 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 Executive Committee of Stichting Administratiekantoor once more emphasized that holders of depositary receipts of shares are granted a proxy to vote in 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 Stichting Administratiekantoor, acting with circumspection, will invoke its authority to deny the proxy or revoke a proxy that has already been granted.

At the meeting on 3 May 2018, the agenda items of the 2018 General Meeting of Shareholders were discussed and Stichting Administratiekantoor's Executive Committee decided on its preliminary voting intentions, in advance of the deliberations at the meeting itself.

At the 2018 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, 99.7% of

<sup>1</sup> The number of depositary receipts of shares has increased by 16,804 compared to 31 December 2017 due to the conversion of registered shares into depositary receipts of shares.

the company's issued capital was represented. On the number of depositary receipts of shares corresponding to the holders of depositary receipts of shares, 67.7% requested a proxy from Stichting Administratiekantoor for voting independently, of which 48.9% had provided voting instructions to Stichting Administratiekantoor prior to the meeting. During the General Meeting, Stichting Administratiekantoor voted for her remaining 32.3% of the issued capital represented at the meeting. After considering all the relevant factors, Stichting Administratiekantoor voted in favour of all of the items on the agenda which were put to a vote.

At the meeting on 18 September 2018, the company's Executive Board gave a presentation on the interim figures for 2018 that had been published. The schedule of retirement was discussed, which shows that Mr. J.S.T. Tiemstra will retire in 2019 and will be eligible for reappointment for a further period of four years. The procedure to be followed for this vacancy was discussed at the meeting.

#### SCHEDULE OF RETIREMENT

In accordance with the Schedule of Retirement of Stichting Administratiekantoor, Mr. J.S.T. Tiemstra will retire in 2019 and will be eligible for reappointment for a further term of four years. By means of its website, Stichting Administratiekantoor 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 Stichting Administratiekantoor in March 2019 will again discuss the vacancy and any suggestions for potential candidates put forward by holders of depositary receipts of shares will be discussed.

#### REMUNERATION

The remuneration of Stichting Administratiekantoor'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 member of the Committee (both excluding VAT). Additional

remuneration is awarded if Stichting Administratiekantoor's Executive Committee is required to make an extra effort. The costs of Stichting Administratiekantoor amounted to € 65,426 in 2018 (2017: € 54,092).

#### IN MEMORIAM

In August 2018 we received the sad news of the death of former member of the Executive Committee of Stichting Administratiekantoor, Professor M.W. den Boogert. Mr. Den Boogert was a member from 2006 to July 2017. In Mr. Den Boogert we have lost a amiable and very capable director.

#### CONTACT DETAILS

Stichting Administratiekantoor has its office at the company's address. Stichting Administratiekantoor can also be contacted via its website at: [www.stichtingadministratiekantoor.kh.com](http://www.stichtingadministratiekantoor.kh.com) or via email: [stak@tkhgroup.com](mailto:stak@tkhgroup.com).

Haaksbergen, The Netherlands, 14 March 2019  
Stichting Administratiekantoor TKH Group  
**Executive Committee**

#### STATEMENT OF INDEPENDENCE

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

Haaksbergen, The Netherlands, 14 March 2019  
TKH Group N.V.  
**Executive Board**

Haaksbergen, The Netherlands, 14 March 2019  
Stichting Administratiekantoor TKH Group  
**Executive Committee**

## POSITIONS MEMBERS OF THE EXECUTIVE COMMITTEE

The 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 N.V. He now holds the following positions:

- Chairman of the Supervisory Board of Fugro N.V.
- Chairman of the Supervisory Board of Koninklijke BAM Groep N.V.
- Associate member of the Dutch Safety Board

#### 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 B.V.' and his other positions include:

- Member of the Supervisory Board of ABN AMRO N.V.
- Member of the Supervisory Board of Royal Haskoning DHV B.V.

#### Mr. G.W.Ch. Visser (1955)

- 2017 First appointment
- 2021 Term limit

Mr. Visser is former director of Stichting Ubbo Emmius Fonds, University of Groningen, and also holds the following positions:

- Chairman of the Supervisory Board of Stichting Orkest van het Oosten
- Member of the Executive Committee of Stichting Administratiekantoor ParkLane Insight

# STICHTING CONTINUÏTEIT TKH

The objective of the Stichting Continuïteit TKH (Stichting Continuïteit) is to look after the interests of TKH Group N.V. (TKH) and all the businesses associated with it in such a way that those interests are secured as far as possible and to resist as far as possible any influences which could affect the independence, continuity or identity of TKH and its businesses contrary to those interests, as well as to do anything related or conducive to the above.

By means of a call option TKH has conferred on Stichting Continuïteit the right to acquire cumulative protective preference shares in TKH subject to a maximum of 50% of the amount of the other shares outstanding at the time of placement of the protective shares or 100% should the limitation on conversion of depositary receipts cease to apply. The protective shares will not be left outstanding longer than strictly necessary. In the event that TKH shareholders actually acquire a degree of control which is regarded as undesirable or is not in the interests of TKH and its businesses, or there is a danger of them doing so, TKH's Executive and Supervisory Boards shall be at liberty to determine their position in relation to such degree of control, to consider and explore possible alternatives and to elaborate on them if necessary.

TKH has also conferred on Stichting Continuïteit the right to initiate an inquiry procedure in the event that Stichting Continuïteit is of the opinion that there are good grounds for the policy pursued by and state of affairs prevailing in TKH and believes that by invoking this right it would be acting in the interests of TKH and the businesses associated with it.

Stichting Continuïteit met once in 2018. The meeting was also attended by the TKH Executive Board at the invitation of Stichting Continuïteit's Executive Committee. Topics discussed by the Executive Committee during the meeting included the annually renewable standby credit agreement for Stichting Continuïteit. This credit facility is exclusively intended for the acquisition of cumulative protective preference shares, in so far as this serves the purposes of Stichting Continuïteit. In addition, the 2017 financial statements of Stichting Continuïteit were discussed, along with the procedures and processes for exercising the call option.

The schedule of retirement was discussed on the basis of which Mr. A.J.M. van der Ven will retire and is eligible for reappointment to another term in accordance with the articles of association. At the meeting, the Executive Committee appointed Mr. Van der Ven for a further period of four years.

Stichting Continuïteit has again noted that it is advisable to maintain the existing protective structure. In doing so, it has taken into account that protection is provided by both depositary receipts that have been issued for TKH's shares and by the call option granted to Stichting Continuïteit to acquire cumulative protective preference shares.

Haaksbergen, The Netherlands, 14 March 2019  
Stichting Continuïteit TKH  
**Executive Committee**

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## EXECUTIVE COMMITTEE OF STICHTING CONTINUÏTEIT TKH

The Executive Committee of the Stichting Continuïteit consists of:

- Professor M.P. Nieuwe Weme, *chairman*
  - Mrs. S. Drion
  - Mr. A. Nühn MBA
  - Mr. A.J.M. van der Ven
- 

## STATEMENT OF INDEPENDENCE

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

Haaksbergen, The Netherlands, 14 March 2019  
TKH Group N.V.  
**Executive Board**

Haaksbergen, The Netherlands, 14 March 2019  
Stichting Continuïteit TKH  
**Executive Committee**



# SMART TECHNOLOGIES

THE HEART OF OUR INNOVATIONS



# SMART TECHNOLOGIES

## THE HEART OF OUR INNOVATIONS

TKH has four core technologies in house that continue to be further developed and each one is state-of-the-art technology. The main strength of TKH is to combine these core technologies over and over again in order to produce unique solutions that customers in the markets defined by TKH are really asking for. This is achieved by knowing these markets inside out, keeping in constant close contact with its customers and even by regularly involving them in the development of a new innovation.

Each of the seven vertical growth markets TKH focuses on requires a high degree of specialization and very specific solutions. Of course, there is no lack of competition in these markets, but TKH can distinguish itself because it can offer a wide and unparalleled portfolio of technologies. In addition to the substantial coherence between the individual technologies, economies of scale also make a decisive difference. By combining the core technologies -which make them suited to different applications- the development of new innovations in particular can benefit from a scale that even makes it possible to shake up markets and that enables TKH to be truly disruptive.

### THE ROLE OF SMART TECHNOLOGY

Over and over again, TKH is able to produce a solution that is tailored to the market in question and is genuinely innovative. And the focus is increasingly on software development. At TKH, software applications consist for about 70% of similar software components, a basic part that must remain constantly state-of-the-art. By being able to offer customized solutions, the focus is on the development of the remaining 30% of that software. This is where the real difference is made and where smart technology can almost by definition play the most important role.

Smart technology is a broad term which, in addition to including artificial intelligence, can also simply be about general software development that makes an application smart. In any case, it is about algorithms and establishing how systems can use these to make independent decisions. In addition, machine learning is especially important, with algorithms that can train themselves based on continuously supplied data. And all that against the background of a future working increasingly towards cognitive applications, where machines will be able to think and understand like a human being. For TKH, smart technology is mainly about how, by correlating different data streams, solutions can be developed that are ultimately much better, more efficient or more secure for its customers.



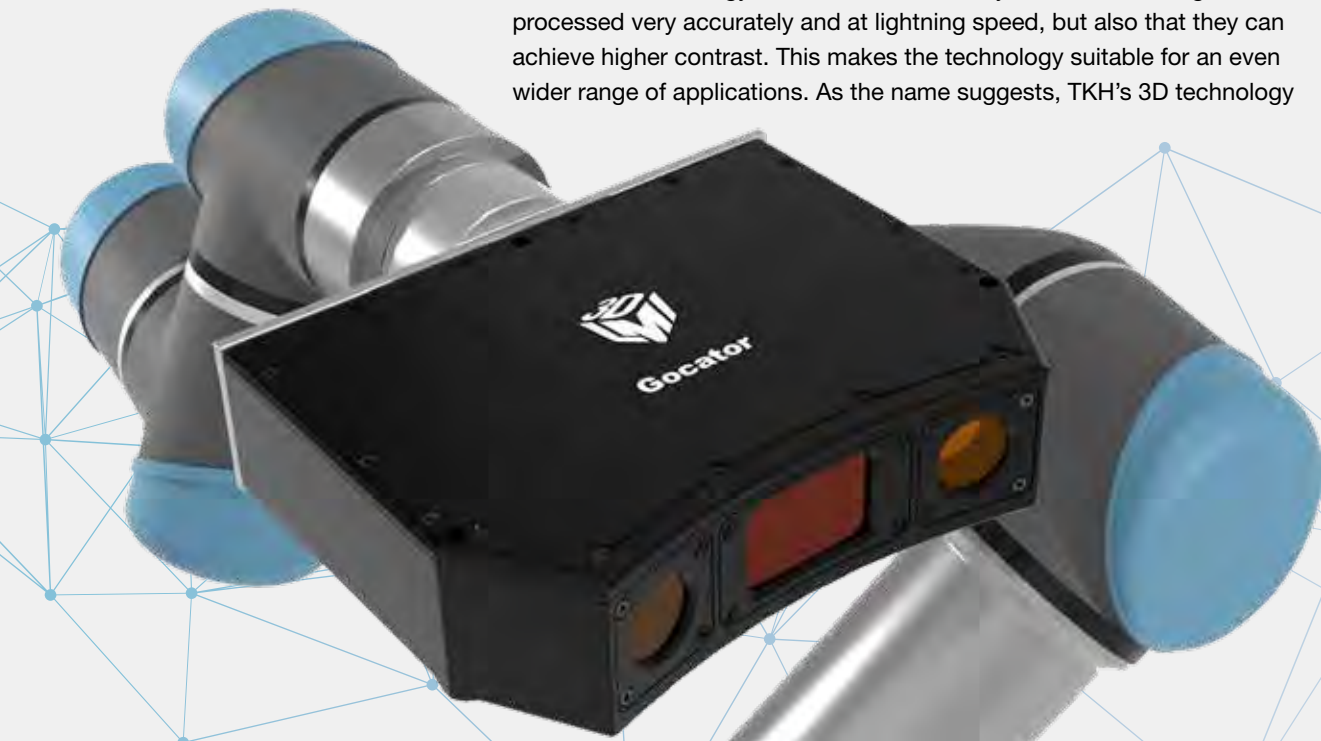
# VISION & SECURITY

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. Amongst other things, vision technology is employed for inspections, and quality, product and process control, and within TKH it plays an important role in medical solutions, industrial automation and in scientific research. Our security technology makes it possible to control and monitor urban environments in relation to safety, comfort and efficiency, and includes alarms and mission critical communication, access, record-keeping and evacuation systems.

TKH's advanced vision technology is used across a broad front and in all seven vertical growth markets. In the first place, of course, in Machine Vision, where this technology has been able to grow to great heights, in terms of both 2D and 3D vision technology. Which of the two technologies is most appropriate depends entirely on what it is to be applied for. In 2D, the sensor technology in the cameras not only ensures that images are processed very accurately and at lightning speed, but also that they can achieve higher contrast. This makes the technology suitable for an even wider range of applications. As the name suggests, TKH's 3D technology

enables real three-dimensional scanning of objects using lasers. This technology is all the more suitable the more important the shape of the object is, and is for instance ideal for controlling robots in modern factories. Vision technology has also become an indispensable link in TKH's tire manufacturing systems, partly because optimal automation of production requires 100% quality inspection. The high-quality and accurate vision technology is ideally suited to this context, with the additional advantage that TKH has and will continue to have all the necessary knowledge and expertise in house.

The advanced vision technology fits almost organically with TKH's security technology. Cameras are always enhanced with smart sensor technology so that what they record can be interpreted and followed up, for instance in the form of a signal to a control room. When combined with TKH's other core technologies, this results in numerous unparalleled total solutions in various vertical growth markets. From monitoring critical infrastructures to being able to keep an eye on people who need care so that they get the care when they really need it.







## TKH CONTINUES TO SET THE PACE IN THE PARKING MARKET

For most people, parking is a necessary side effect - something that does not get better because the amount of traffic is continuing to grow steadily. Together with other aspects such as car park safety, this requires innovative solutions, both for the parking experience of visitors and good, efficient operation. By combining in-house technologies, TKH continues to set the pace for the parking market, and shake it up from time-to-time. After being the first to introduce a parking guidance system based on camera technology, smart technology and software development have played an increasingly important part in recent years.

For example, TKH was the first company to introduce an application that allows car park users to easily find their car again. You can do this by using the 'Find Your Car' function of the 'Park Finder' app or simply by inserting the parking ticket into the payment machine. The parking guidance system is now in its fourth generation. On each floor of the parking garage, smart sensors ensure that car park users are quickly shown to a vacant space by means of coloured lighting. In addition to the usual green and red colour coding, blue, for example, can be used to point out the nearest vacant space for the disabled. Other colours allow the operator to apply variable parking rates, such as for short stays in the most sought-after places in the garage, discounts

during off-peak hours, and for events. When the car enters the parking space, it is identified by the smart sensors and the corresponding rate is automatically applied. Installed above the driving lane with dual cameras to monitor two parking spaces on each side, these sensors also provide a security solution. Traditional surveillance systems are often hindered by obstacles blocking a view of the parking space. With the additional 'Park Surveillance' software, the smart sensors ensure that video images are recorded when movement is detected on or around the parking space. This can also be adjusted to continuous monitoring.

Because functions like these supply intelligence on the parking spaces, this also leads to a situation where the system's main server can be used more specifically to process all the data needed to generate a wealth of interactive and in-depth reports for the car park manager. On the dashboard, the manager can not only easily analyze the parking facility's performance and take appropriate action, but also make on-the-fly adjustments to increase efficiency and profitability. TKH is also first with a cloud-based reporting portal. Here, TKH is working on a broader software platform to use all data that can be generated in an even smarter way. This enables TKH to stay a step ahead of the competition in the parking market and keep this position.

### M4-smart sensor parking technology

Each individual sensor has the ability to stream video to a video management system, while also sending rich data for our integrated License Plate Recognition (LPR) and occupancy tracking.







## CCTV SYSTEM FOR INTELLIGENT SUPPORT ON DREDGING VESSELS

Modern dredging vessels are highly complex and come in all different shapes and sizes. As well as the environmental factors that every dredging vessel has to cope with, the dredging process itself causes constant vibrations, which the equipment on board must be able to withstand. The CCTV system supplied by TKH to dredging vessels consists of cameras that are not only designed specifically for these environmental factors, but that above all also offer support in the day-to-day operation, that go beyond merely safety considerations.

Beside providing safety monitoring, the CCTV system guarantees maximum observation of day-to-day operations. TKH followed a highly innovative work approach and designed a smart CCTV configuration that enables the captain to switch between a range of operational applications at the single push of preset function buttons. This makes it extremely simple to switch for example to 'dredging mode' whereby the video streams are received from cameras focused on the deck. He can also select 'mooring

mode', whereby cameras mounted below the wings of the bridge provide the captain with images that enable him to observe the side of the vessel and the dockside in relation to one another during mooring. In addition to increasing overall safety on board, the CCTV system in other words provides assistance in managing day-to-day operations.

An intelligent video management system on the bridge combines all the surveillance equipment installed on the vessel in a single user interface that provides the tools and the overview necessary for guaranteeing a rapid and efficient response. Advanced algorithms are used to continuously analyze camera images and to identify unusual incidents, before issuing an immediate warning about their nature and location. The CCTV system is also equipped with thermal cameras for night vision, intruder detection and hotspot monitoring. In the engine room, for example, thermal images can recognize an oil leak or an overheating engine at an early stage, issuing a warning to the crew in time to take preventive action.

### Explosion Proof Solutions

Our explosion & corrosion proof camera line are all suited for use in extreme offshore and onshore conditions. They are certified for ATEX and IECEx Zone 1 & 2 hazardous areas, which means they are suited for areas where flammable gases, vapor and sparks can lead to accidents.







## FRONTRUNNERS IN THE DEMANDING INSPECTION PROCESS FOR ADDITIVE MANUFACTURING

Vision technology is essential for quality inspection and process automation in modern factories. Increasing levels of automation in production lines will further boost demand for machine vision systems over the coming years. New systems will not only demand higher efficiency and quality but also greater flexibility. The ultimate form of production flexibility that ties in with the customer demand for fully individualized products is 'Batch Size 1'. For production processes of this kind, and in situations where highly complex components must be fabricated, additive manufacturing offers extraordinary possibilities. When it comes to the demands imposed on the inspection of this production method, TKH can now justifiably describe itself as the frontrunner.

Additive manufacturing is often referred to in a single breath as being synonymous with 3D printing, 'selective laser melting' and 'selective laser sintering'. According to this production method, a thin layer of a raw material, for example metal, is spread across the work field in powder form. A powerful laser beam is then directed according to a precisely determined pathway over the powder, at high speed. As it melts, the powder is bonded to the underlying layer, to form a solid material. As more layers are applied, a three-dimensional object is gradually created. This entire procedure is not only dependent on an accurate laser system but also on high-speed

machine vision technology for monitoring and controlling the laser process.

TKH supplies high-speed area scan cameras to OEMs that produce additive manufacturing systems. The high speed and high resolution of these cameras make it possible to detect inhomogeneities in the melt, which could threaten the stability of the end product. For example, in the automotive and aerospace industry, this is a critical aspect. At the same time, the cameras generate three-dimensional images that make it possible to closely monitor the melting process and the resultant construction, so that corrective measures can be taken without delay, before preset tolerance limits are exceeded. This results in huge savings in time, material and costs, for the manufacturer. What makes these cameras particularly outstanding is their ability to withstand high temperatures, and for example to compensate for the glowing of the metals, without detracting from the picture quality.

What is absolutely unique is the next generation of high-speed cameras with embedded processing and self-learning algorithms. These smart cameras only pass on relevant information so that the system is not overrun with high data volumes. This approach enables maximum customization that offers total scalability also for other applications, such as laser welding processes and predictive maintenance.

### Selective laser melting

Also known as 'direct metal laser sintering', 'selective laser melting' is a rapid proto-typing, 3D printing, or additive manufacturing technique designed to use a high power-density laser to melt and fuse metallic powders together.





## SMART CUSTOMIZED VIDEO SURVEILLANCE IN TUNNELS

The crucial importance of safety in tunnels is obvious and applies everywhere. As a small, densely populated country where tunnels are an indispensable link in the road network, the Netherlands serves as a good example in several ways. The safety rules for tunnels are among the most stringent in the world, not only regarding safety but also permanent availability. Because of all the technology required, TKH is an important and, above all, innovative player that can always go that step further in infrastructure projects. Smart video surveillance with VDG Sense illustrates that best.

In the Netherlands, we have the National Tunnel Standard (LTS) which, importantly, prescribes the specifications that technical installations in tunnels must comply with. Those installations should facilitate safe traffic flow, self-reliance and rescue activities, while mitigating the consequences of accidents. Largely, these are systems that TKH can deliver like no other, especially as a custom-made total solution. 24/7 video surveillance, and everything concerned with it, is essential for the security and proper functioning of tunnels. Thanks to in-house mission critical communication technology, the intercom and broadcasting systems are also ideally suited for deployment in such critical infrastructures. In addition, TKH provides communication interface management that works between the control layer and the prescribed layer in which

the various underlying technical systems are located. Equipment in a tunnel suffers greatly due to passing trucks, for example. That's why the cameras have been designed to be very robust and durable, and can be replaced quickly and easily if necessary. However, the backbone in TKH's total solution is VDG Sense. This smart, innovative video management system can detect and automatically report anomalous or predefined situations. As a result, for example, a road lane can be closed immediately and a diversion can be controlled via the matrix signs above the motorway. Images can be selectively recorded, based on motion detection and license plate, object and face recognition. So it is even possible to immediately provide rapid-response emergency services with the right images - particularly of what preceded the situation - so that it can be assessed quickly and accurately. VDG Sense is above all a flexible system that can be completely customized. For example, especially for Rijkswaterstaat in the Netherlands, which is responsible for the management of many tunnels, latency and contra flow signaling has been added. This allows an operator in the central control room to see at a glance whether technical problems in the network or other external influences have caused delays in the images displayed, or that a camera has been rotated through 180 degrees, if, for example, a tunnel tube has been closed due to an accident and the other tube is being used for two-way traffic.

### VDG Sense

VDG Sense is the most flexible, creative and secure video management system in the field of security. Available for any video security solutions, this state-of-the-art video management system caters to any business wish or requirements by seamlessly integrating all components of a security network into a fully functioning system.







## UNRIVALLED ENDOSCOPY SOLUTION THANKS TO BUNDLED TECHNOLOGY POWER

Because endoscopes have become smaller and smaller over time, operations and diagnostic procedures in the care sector can be carried out in a much less invasive way than was previously the case. Image sensors are now so small with such improved resolution that it is increasingly simple to carry out internal examinations. At the same time, cleaning and disinfection of endoscopes to prevent cross-contamination has the highest priority, with all the associated costs. Single-use endoscopy is therefore increasingly being used. For this form of endoscopy, TKH has been able to push the boundaries with the new HDselect camera solution thanks to bundled technology within the group.

To minimise health risks and to ensure that patients can recover quickly after a medical intervention, ultra-compact camera technology is naturally also required in single-use endoscopes. TKH has

developed a CMOS camera assembly with integrated optical fibre lighting and a diameter of only 1.6 millimetres. As a result, the new camera solution is not only perfect for single-use endoscopy, but can also be used to inspect the other type of endoscopes that are used repeatedly. Even when properly cleaned and resterilised, residues can remain in the very small endoscope channels, and this cannot be traced without visual inspection. The miniature 'chip-on-chip' camera solution from TKH offers a solution for this issue as well. Due to the intelligence built into the camera in the form of image processing and image improvement capabilities, compactness has not been achieved at the expense of image quality. To support the work of surgeons, this also includes very specific matters such as safeguarding against latency so that the image can be displayed in real time without any delay, as well as a function for better perception of reddish colour tones.

### HDselect

HDselect is a compact HD board-level camera with a modular design for single-use and multi-use applications. HDselect is offered with different high-sensitive CMOS color image sensors for excellent image quality.

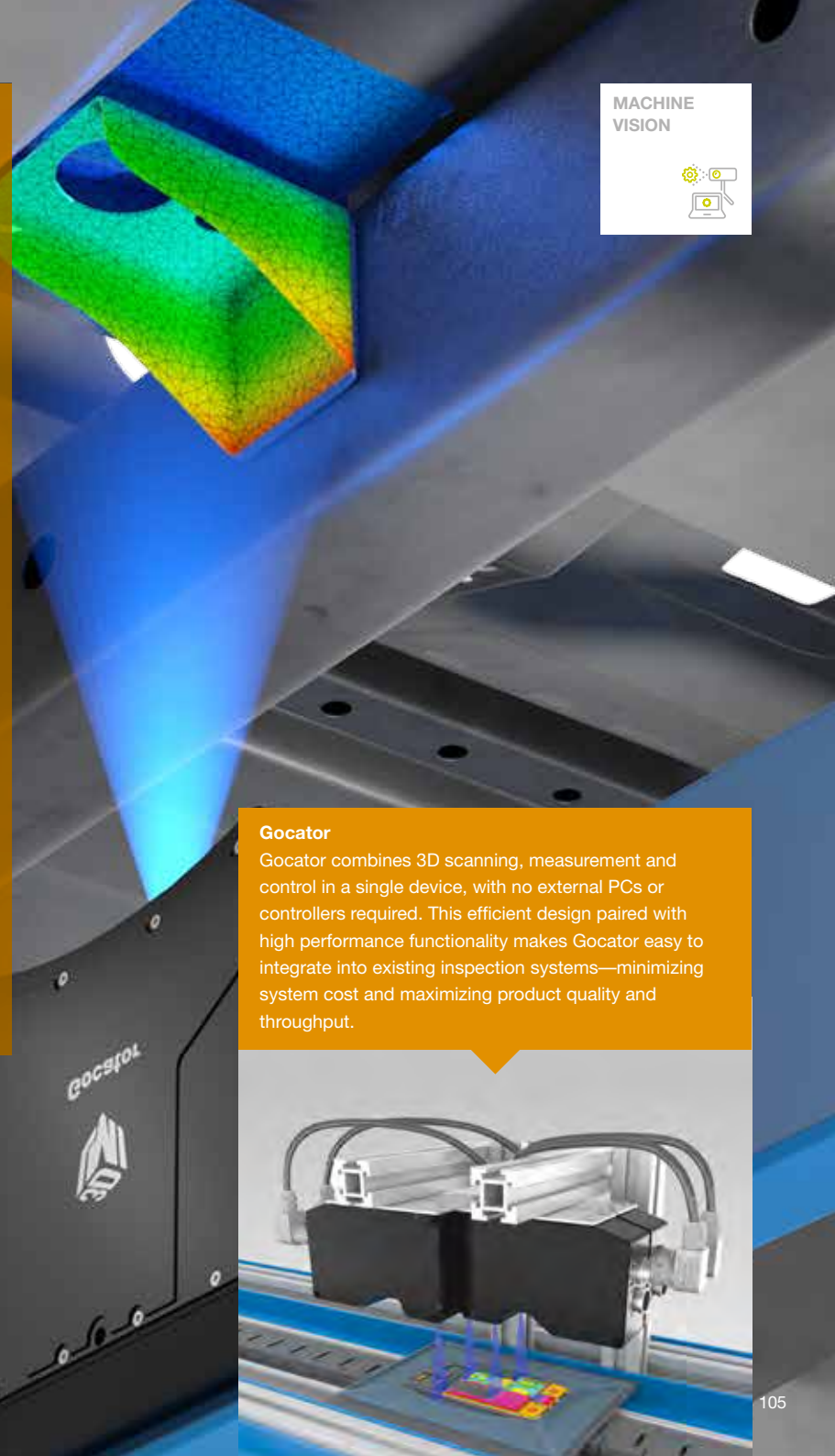
# SMART 3D SENSORS FOR THE SMART FACTORY OF TODAY AND TOMORROW

Factory automation is advancing in leaps and bounds. Manufacturers are faced with a constant growing pressure to produce more goods, while consuming fewer raw materials and less energy, compounded by an urgent need to remain competitive in today's rapidly changing world. With high-performance technology in the field of 3D scanning and 3D inspection, TKH can offer a viable solution to this challenge.

When it comes to processes and systems, some industries are more advanced than others. Automotive and consumer electronics (CE) manufacturers are the best examples of industries that are using advanced technological applications to automate their production lines. In the consumer electronics market, the sales cycle is considerably shorter, so it is standard practice to equip the production plant with new facilities for each new product launch. That calls for inspections to be carried out on spare parts such as connectors and printed circuit boards, and

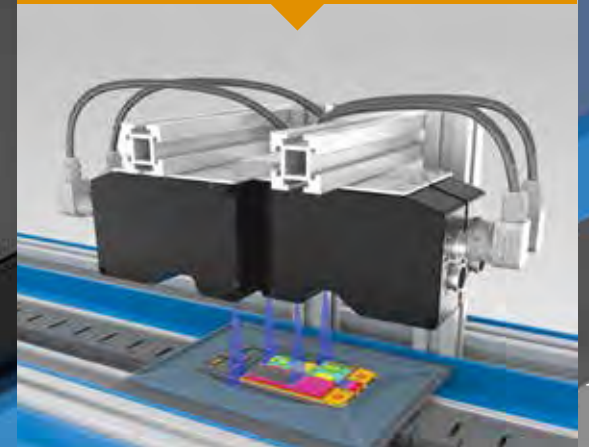
on (sub) assemblies, in heavily automated production lines. This in turn imposes heavy demands on the speed and degree of detail with which the inspections must be carried out.

Using pioneering 3D technology, Gocator® 3D smart sensors from TKH are able to handle this level of automation along with many other critical manufacturing tasks. Gocator® is an all-in-one machine vision solution that combines laser, camera, optical, electronic and calibration applications, in a single compact housing. For inspection of moving targets, the sensor uses built-in laser technology (either point or line depending on the preferred sensor type) to scan the target object as it passes through the field of view—generating a 3D scan to which the user can apply measurements and pass/fail control decisions. Alternatively, structured light snapshot sensors capture the target object in a single scan, for inspection applications where the object is temporarily stationary.



## Gocator

Gocator combines 3D scanning, measurement and control in a single device, with no external PCs or controllers required. This efficient design paired with high performance functionality makes Gocator easy to integrate into existing inspection systems—minimizing system cost and maximizing product quality and throughput.





# MISSION CRITICAL COMMUNICATION

Our communication technology focuses on image transmission, speaking and listening connections, guiding and lighting systems, security and control. For security in buildings, the communication technology is often used in combination with the group's vision & security technology. Through our technologies we promote efficiency, safety and security in tunnels, parking garages, outpatient and inpatient health care, airports, football stadiums, schools and financial institutions.

The great common denominator of TKH's communication technologies is that the communication is completely reliable at all times. Products and solutions are always designed and tested in such a way that they always continue to function, even in the most extreme situations. The number of environments and situations in which this may be critical is increasing. By their very nature, for example in critical areas such as tunnels and drilling

rigs. Because of the specific role that communication has to fulfill in hospitals and care institutions or simply in people's homes so that they can live there independently for longer. And otherwise in public places, in a society where security has been placed higher on the agenda. As a core technology, mission critical communication is therefore applied widely, often forming a logical combination with the vision & security technology.

For all these applications, the total solutions are invariably tailor-made. Intercom stations with hands-free communication and an antibacterial membrane surface, for example, which can be used in operating theatres and intensive care facilities in hospitals. Smart technology often makes the difference. Not just by using algorithms to suppress background noise to guarantee good sound quality even in the noisiest of environments. Smart technology is primarily also used to automatically detect certain situations. As an important application in this area, TKH's intercom systems can be equipped with functions that ensure the correct follow-up. For example, if a situation occurs where the person concerned is not able to make an emergency call themselves. The latest application is Interactive Voice Response (IVR) with speech recognition, to automatically respond to questions and notifications or to immediately trigger the right action.





# SMART INTERCOM SYSTEMS FOR MEANINGFUL SECURITY

Security has become an increasingly important theme in our society. More than safeguarding buildings and assets, the emphasis is more and more being placed on protecting the people present. Here, TKH is once again setting the pace with the new Concerto intercom systems, which are the first in the world to automatically switch to a special emergency mode.

TKH's innovative Concerto concept is about multi-functionality that allows for customizable user interaction, enabling a wide range of applications. The new ID5 and OD10 intercom stations, for indoor and outdoor use respectively, and with or without a built-in camera, are the first manifestations of this. These new intercom stations bring the versatility and ease-of-use of smart devices to communication

and security devices. The multi-functionality can be seen not least in the automatic switch to an emergency mode. In an emergency, the screens integrated into the intercom pillars can be switched immediately to another layout and other functions, either automatically or manually. The intercom stations will then also have a special emergency call button showing escape routes or evacuation information. In critical situations -for example, where evacuation routes may change suddenly- such information can be vital. By complying with national and international standards and being classified as Advanced Security Building Intercom Systems (ASBIS), the multifunctional intercom stations also support the entire incident response chain from alarm, through verification, to response and ultimately follow-up care.



## 'Concerto' intercom technology

The 'Concerto' mission critical communication technology for intercom systems transform an alarm signal or a command within one second to emergency call stations, switching to specific graphic touch screens and special functions for emergency communication. Also safe escape routes and other relevant information can be displayed on the intercom terminals.





## VIEDOME AT THE FOREFRONT OF THE NECESSARY TRANSFORMATION IN HEALTHCARE

The need for ever better and more efficient care is self-evident in view of the ageing of the population. This applies both to in-patient care as provided in hospitals and care institutions, and to home-based care to enable people to continue living at home independently for longer in a responsible manner. For the more far-reaching technological support of the care process, which is almost inextricably linked to this, TKH's vision is that care provision will become more efficient if the technology is more tailored to each client. Technology then becomes part of the client's life. This is also reflected in what VieDome has to offer, as solution for both non-hospital and in-patient care.

VieDome is an open system, to which all kinds of other systems or products in an institution or home can easily be linked, and it can be used in a fully mobile way. One of the principles of this open system is that home automation belongs to the client and not so much to the building. This way of thinking allows the system in a care institution to be adapted quickly, for example when a new client arrives on the ward, or if an existing client's changed situation so requires. The open technology also means that home automation and sensors that actually seem outdated do not necessarily need to be replaced; smart

software gives them new functionality. For TKH it is not about all the hardware that can be supplied, but much more about making use of smart technology, especially more software. More than a monitoring system alone, the information generated by VieDome can be used to optimize client care. VieDome is a total solution, with a wide range of applications including video contact for home care, video and acoustic monitoring, pattern recognition, personal alarms and detection of wandering. Monitoring and alarm handling can be easily tailored to the situation. Clients who, for example, are unable to press a button when necessary due to a mental disability or dementia can be switched from an active to a passive alarm system. For instance with geofencing, where an alarm is triggered when the client leaves their safe habitat. Another client may be able to go to the toilet independently but at the same time may run a high risk of falling. By combining the data from a bed and toilet sensor and taking into account how long this client normally takes, the correct alert can be generated and the number of false alarms can be reduced. Software-based responses to scenarios like this characterize the further development of VieDome as a total solution, which is unrivalled thanks to all the technology available which can turn every care ward and every home into a smart environment, quickly and easily.

### NightWatch

The NightWatch is a comfortable bracelet that closely monitors the heart rate and movement of the wearer during the entire night. If the system suspects a severe epileptic seizure, a warning signal is given. This signal is linked to the VieDome system so that the report can be passed on to emergency services or to the care center.







## CRITICAL INFRASTRUCTURE SECURITY WITH ASSET & SITE MANAGEMENT SOLUTION

More than ever, we as a society are dependent on the continued proper functioning of critical infrastructure. A power failure or Internet failure, for example, can have major consequences. In the field of Asset & Site Management, TKH has a unique solution that can monitor and keep track of unmanned technical locations from a single central point, thanks to the use of smart technology.

Taking the changes in the architecture of optical fibre networks as a starting point, passive location -so without power- are applied. And a complete fibre network can consist of hundreds to thousands of passive locations. This makes it almost impossible to have them checked regularly by technicians. For this reason, TKH has developed an innovative solution to monitor and secure these passive locations. The new JUNO controller enables

customers to monitor and secure the passive locations in the network with one software shell in addition to the active ones. Here the latest available technology is used in the market, such as LORA and NB-IoT to connect devices wireless via the Internet. Sensors monitor temperature, battery status, signal strength and humidity. Unique aspect is that access can be arranged via a smart phone. With the addition of the JUNO to the Asset & Site Management system, TKH offers its customers a complete solution to manage a fibre optic network integrally. The Asset & Site Management solution naturally also very suitable for other unmanned critical infrastructures such as cable TV, energy networks and other utilities. Locations that lack a power supply or do not have the right power supply or may have been too small up until now have become accessible with the newly developed JUNO controller.

### Asset & Site Management

With the Asset & Site Management Solution, remote access control of unmanned locations in critical environments is monitored as well as environment variables. In combination with the iProtect Security site software, it offers a future-oriented solution that allows managers of unmanned sites to be fully in control.





## PARKING MANAGEMENT FOR THE FUTURE WITH FLINQ FORESIGHT

**In parking management there is an increasing need for centralization. In addition to remaining in full control of what is happening in all parking facilities, centralization can drastically reduce cost, of course, and also improve safety. TKH's answer to this is FlinQ Foresight.**

A parking garage may contain many different systems, such as cameras, intercoms and equipment for parking guidance, access control and intrusion detection. TKH has long been able to combine control and monitoring of these various systems and display them on one dashboard in the control room in order to have a clear view and provide full control over what is happening in the garage. FlinQ is a solution that has been developed over the years and makes more possible in the field of parking management. Control rooms are constantly getting more reports and questions to process. To meet this challenge, FlinQ is now evolving from an integration platform to an increasingly automated control room solution that has not been named FlinQ Foresight for

nothing. FlinQ Foresight is equipped with Interactive Voice Response (IVR), thanks to TKH's mission critical communication technology and uses Artificial Intelligence (AI).

A significant part of the questions and reports that a control room has to process every day are recurrent, and are therefore ideal for automation. This has now become possible thanks to TKH's development of IVR, which provides the right follow-up for a question asked via an intercom system. The use of data is also becoming an increasingly important part of the solution. Similar to people, a system needs to learn to make decisions based on observations, which is the case with AI. All this smart technology makes FlinQ Foresight a unique solution not only in this market. In its further development, TKH's vision is that ultimately the vast majority of all questions and reports received by a control room can be processed completely automatically by the system itself. The benefits for efficiency, but also for the quality of processing, are obvious.

### FlinQ

FlinQ is an open and flexible integration platform. FlinQ seamlessly integrates all devices like access control, camera, intercom and intrusion detection and allows the user to control them through one user interface.







# GROUND-BREAKING INTERCOM SOLUTIONS FOR SUPER YACHTS

Over the years, super yachts have become so large that some are not even able to moor in certain ports or marinas. Generally held in private ownership, super yachts are professionally crewed. Depending on the size of the yacht, crew numbers can be considerable. While on board, the crew must be able to count on a reliable communication. Irrespective of the conditions, communication between bridge and engine room must be possible at all times. As a market leader in the field of high-quality intercom systems in numerous application areas where communication is of vital importance, TKH has now also elaborated a ground-breaking IP-based intercom solution for super yachts.

The intercom system features a modular structure that can be fully customized and easily installed. The intercoms themselves are seawater resistant and equipped with two digital microphones that thanks to a newly developed beam forming algorithm guarantee background noise suppression. Even in a very noisy environment, the speaker can be understood loud and clear. The cameras that can be supplied alongside the intercom feature a lens produced from reinforced scratch-resistant glass,

and even guarantee good picture quality in poor lighting conditions thanks to infrared light and a band-pass filter. Another important module is the server and central control unit for the entire intercom system that can be simply configured via a web browser. Encryption guarantees protection against unauthorized access. From an aesthetic point of view, too, the intercom system is unique. The electronics and modules are resistant to all the conditions the vessel may find itself in. Besides that, the intercom systems are designed in such a way that they can be fully integrated in the vessel's interior. Specially made for super yachts.

The highly modular structure according to which all components can be tailor-made to incorporate high-quality communication technology means that this solution is unsurpassed. However, the most remarkable aspect is that this is a fully IP-based system. Although VoIP is nothing new, it is still not a common solution in this market. At present, communication on board super yachts is still dominated by analogue technology. This new intercom system is the first of its kind that will be used for mission critical communication. The way in which TKH has launched VoIP on the maritime market is completely ground-breaking.

## Mission Critical Communication for super yachts

Two digital microphones and state-of-the-art audio algorithms to eliminate background noise without losing essential acoustic content. SIP video camera in HD quality with infrared lighting can be installed as a surface-mounted or flush-mounted variant.



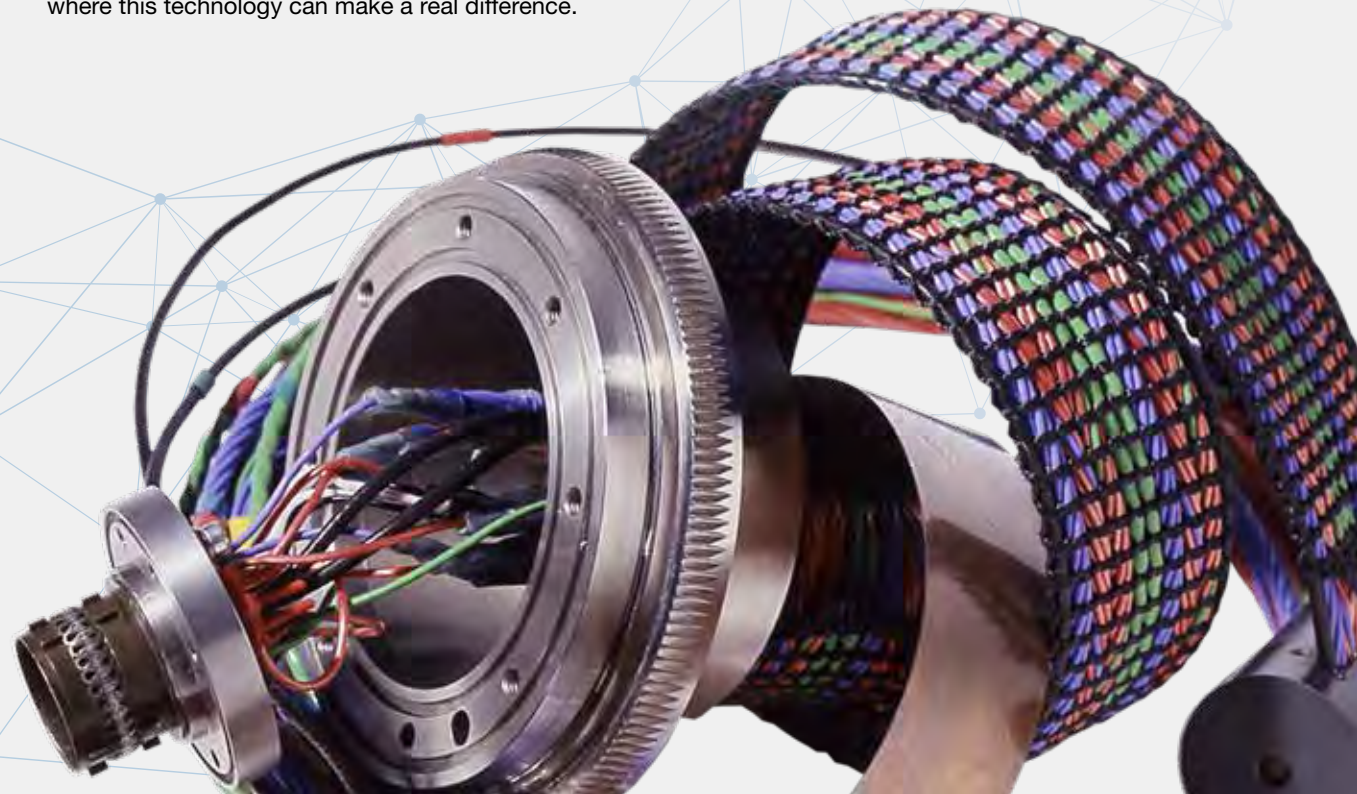
# CONNECTIVITY

Our connectivity technology allows us to focus on customer-specific specialty cables, connectors and connectivity systems for a wide range of applications in high-tech environments, such as the heavy industry, marine & offshore, robotics and mechanical engineering sectors. Our advanced connectivity technology for contactless energy and data distribution for airfield ground lighting systems is an innovative technology that is leading to a breakthrough in the aviation world in the field of safety and reduction of OPEX. In addition, we produce and supply 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.

TKH's connectivity systems carry video and audio signals, data, energy and electricity in many different ways. Connectivity is often combined with the other three core technologies and forms the basis of our innovative comprehensive solutions. The extent to which this core technology has been developed is evident from not only its uses in almost all seven vertical growth markets, but even forms the basis for one of those markets due to its 'state-of-the-art' fibre optic network connections. Fibre Optic Networks is a growth market due to the ever-growing demand for bandwidth.

The high-quality status of connectivity technology can equally be found in TKH's specialty cables that are in use in various high-quality instruments in the medical and industrial sector. These specialty cables are manufactured in a separate clean room by workers with special training. Or TKH's innovative subsea cable systems that connect wind turbines at sea and transport the energy those turbines generate. Another example of our technical prowess is CEDD, an innovative technology developed by TKH

for contactless energy and data distribution. This technology can be used to easily and quickly install lighting for a runway at an airport without having to make contact with or replace a power-supply cable. One of the places where safety and continuous operation is of vital importance, and where this technology can make a real difference.





# SUBSEA CABLE SYSTEMS UNIQUE IN THE MARKET

Wind and solar energy have become important elements in meeting the demands of the inevitable energy transition to sustainable energy production. Additional investments are therefore being made in wind farms, mainly at sea.

TKH has successfully positioned its unique connectivity technology for subsea cable systems within this growth market. Not least because of the well-thought-out cable concept, which connects wind turbines in the offshore wind farms. To address the demand for innovative and sustainable subsea cable systems, TKH has equipped the production site with a completely new machine park and test facilities. This simultaneously provided the opportunity to optimally align the production equipment with the innovative cable concept. One of the distinguishing factors in the cable concept is that, in addition to three copper or aluminium conductors for transporting the generated electricity, it also includes an additional fibre optic cable for controlling and measuring the connected wind-turbine installations.

The cable cores are fitted with an advanced aluminium jacket that functions as an earth shield and at the same time provides exceptionally good waterproof protection. Another unique feature of the connectivity concept is the long lengths that are delivered in one piece and are equipped with all the necessary accessories and connectors for both ends. The main advantage of this is that the risk of cable damage and penetration of water is absolutely excluded. The cable length can be up to twenty kilometres, which greatly increases installation flexibility. At the same time, there is a strong increase in the capacities that the wind turbines can generate. They provide more energy, but the mechanical forces exerted on the subsea cables also increase. TKH supplies cable systems with a voltage of up to 72 kV (kilovolt). The unique and innovative aspect is that, up until now, no cables with such voltages have been produced, specifically optimized for use in wind farms. Here too, TKH delivers a technological breakthrough within its connectivity solutions.



**Subsea cable system**  
A modern design based on state-of-the-art technology. Voltage up to 72 kV with an aluminum or copper conductor, equipped with a fibre optic cable for data distribution.







## MINUSCULE IN SIZE BUT WITH EXTREMELY HIGH-QUALITY APPLICATIONS

**Connectivity technology in the healthcare sector must meet stringent requirements for both reliability and flexibility, not to mention comfort during use. Consequently, cables specially developed and produced for the medical sector are increasingly more compact and smaller in size.**

The miniaturization of cables is extremely important in microsurgery and endoscopy because the smaller the diameter of the cable, the lower the risk of damage to the body during the procedure. TKH is intimately familiar with the needs of this market and responds by developing innovative specialty cables. These include a micro endoscopy cable with a micro coax for signal and high-quality image transfer with a diameter of only 0.22 mm and two compact miniature wires for supplying power with a diameter of only 0.0013 mm.

Equally as important -and incontestable for TKH- these specialty cables feature the antibacterial cable sheathing 'BacterialfrEE'. The focus here is not only on the surface treatment, but the additive in the cable sheathing. From a microscopic perspective, TKH connectivity technology is so unique that it is extremely popular in markets other than just the medical sector, including the industrial, mechanical engineering, process control engineering and automation sectors. Meeting the specific needs of these sectors requires a high degree of perfection during production. The processes used eliminate the risk of contamination in both the cable core and outer casing, while at the same time safeguarding the fully electrical and mechanical properties of the cable, as minuscule as they may be. As a result, the cables remain flexible under extreme temperatures and can withstand external influences without these having a negative impact on the quality of the cable.

### Miniaturized specialty cables

To develop and produce customized miniature cables and coaxes down to AWG 56 (Ø of conductor 0.0124 mm). All cable solutions fulfill the high safety demands for use in medical and healthcare technology like sterilizable, disinfectable, spiralized or plug-and-play.







## ACE PIONEERING FOR OPTICAL FIBRE NETWORKS

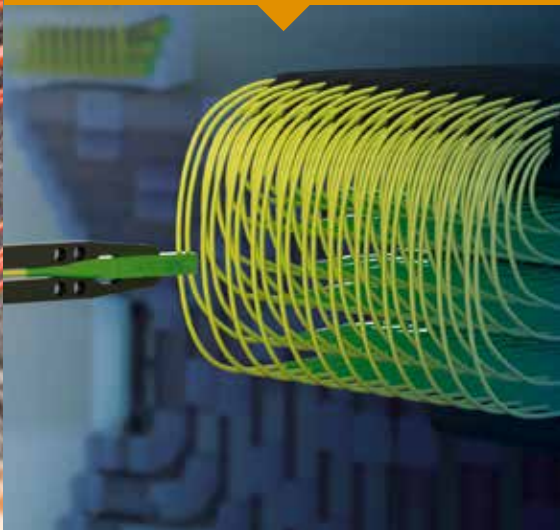
5G is on the way, at a time when much more will be demanded from optical fibre networks. Various applications of the Internet of Things (IoT) require a very high reliability and low response times. As the recognized party in the development and supply of these networks, TKH is taking the lead in this sector. ACE is TKH's total solution for modern optical fibre networks, which can be positioned in the market as an all-in concept partly thanks to all the technology TKH has in house. Ground-breaking steps are being taken here now, including the optical creation of IoT connections.

While with ACE the central areas in a network could already be fully automated, the next step has now been taken to make all the other components in the network infrastructure smart as well. It must be possible to continuously monitor and adjust not only the active but also all the passive components. It is important to be able to continuously and automatically monitor whether all the connections function optimally in the total network.

To be able to adapt to the required capacity in certain situations -like movements of crowds- fibre optic connections must also be able to be controlled and switched. The software that is indispensable for this automation must above all be open to obtain compatibility with the various interested parties. TKH is now also going to use cobots -robots that can work together with humans- for ACE in this area for automation. With the smart SAODF technology (semi-automated optical distribution frame), robots in PoPs (Points of Presence) have been used for some time to remotely switch optical fibre connections. This means that in the event of customer changes, for example, technicians no longer need to go to a PoP to manually create or remove network connections. Other TKH solutions can deal with the loss of electronic signals in the passive parts of the network by using optical fibre cables that are able to optimally control all connected equipment in such circumstances. Making IoT connections optical in this way could be classed as disruptive. It paves the way to being able to offer a total solution with ACE for modern optical fibre networks.

### Semi-Automated Optical Distribution Frame (SAODF)

With our Semi-Automated Optical Distribution Frame (SAODF) we are capable to control fibre connections remotely so there is no need to go to the POP for patching in person. Quick response on customer demands and automated fibre management and test access solution.







## REVOLUTIONARY RUNWAY LIGHTING

At airports, runway lighting must, of course, continue to operate and not be out of service for too long when carrying out maintenance. Traditional lighting systems are complicated and sensitive to interference, owing to cables running through the asphalt to transformer pits, thence connecting each lamp along the runway. With CEDD, TKH has a revolutionary alternative. This is a unique connectivity technology for the contactless transfer of energy and data, further enriched with the group technology and know-how in the field of Asset & Site Management.

To understand the principle of contactless transmission, you just need to think about an electric toothbrush. However, the big difference is that CEDD (Contactless Energy and Data Distribution) has been developed in such a way that no energy is lost and data can be transferred as well as power. Electricity and data communication go through the same cable, which only needs to be laid on both sides of a runway. The lamps can be easily clicked on without having to make open electrical contacts, and with only an additional base station. This simplicity contrasts sharply with the traditional way. The benefits are many. CEDD is much faster and cheaper- aside from the massive energy savings that the system

delivers- and can be safely installed without complications. Maintenance is very simple as well. There are no more situations when a complete runway has to be taken out of use because maintenance has to be carried out on or around a transformer pit. These pits are sensitive to moisture and as the traditional lighting systems have much longer cables, the risk of disruptions is significantly higher than with the CEDD AGL (Airfield Ground Lighting) solution.

The smart software already used in CEDD has been bundled with TKH's technology in the field of Asset & Site Management to make this an ideal combination. The data generated on the runway can be used to remotely manage and monitor the entire system. Even if a bolt in a lamp threatens to vibrate loose due to all the take-offs and landings, this is automatically detected by the smart sensors in the system. Information on preventive maintenance is also provided on the basis of measured parameters. This too saves a lot of expenses, and maintenance technicians do not need to go onto the runway unnecessarily. All these properties make CEDD ideal for use in tunnels for dynamic road and evacuation lighting, for example, or on drilling platforms, because this system does not cause sparks due to electrical voltage.

### Apollo Site management for CEDD AGL

Apollo Site Management solution continuously records the availability of the CEDD system. The system ensures continuous registration of the access control. The monitoring is controlled on the basis of sensors with which temperature, humidity and fire are detected and an alarm is generated in case of deviation.

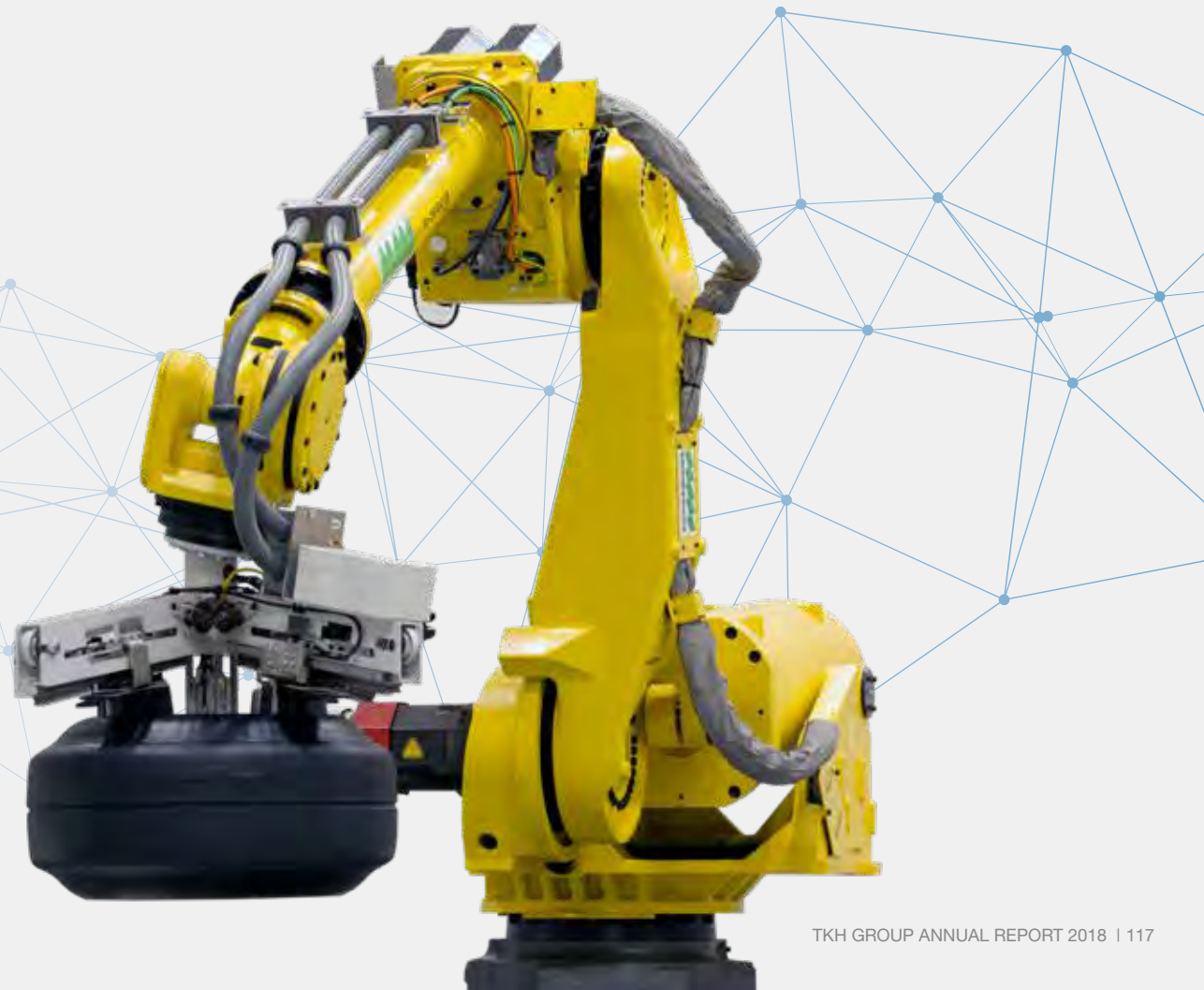


# SMART MANUFACTURING

TKH uses its knowledge of the automation of production processes for controlling and monitoring industrial processes and also in comprehensive manufacturing systems for the production of car and lorry tires, 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. Our technology boosts the reliability and flexibility of manufacturing systems, allowing us to respond to the requirements of a number of specialized industrial sectors, such as the tire manufacturing, robotics, medical and mechanical engineering industries.

As TKH's fourth-largest core technology, smart manufacturing occupies a special place. The basis for this core technology is formed by technology TKH has developed for its tire manufacturing systems, which are more advanced than those of any other player on the worldwide market in that field. The combination of technologies, primarily TKH's vision technology, makes this position even more unique. The state-of-the-art smart manufacturing technology and all the expertise and skill in relation to the automation of production processes that goes with it is, in turn, used in other sectors within the industry. In the healthcare sector, for instance, in the form of a fully-automated system for individual packaging of medication. And ultra-modern cotton-wool punches, for cutting and packaging cotton-wool pads for cosmetic use.

Smart manufacturing technology has developed and become so advanced due to the high standards demanded within the industry. Within the tire manufacturing industry, among others due to the demand for increasingly shorter production runs that require flexibility in terms of production equipment, but also because of the quality and precise properties of the rubber to be used. Smart manufacturing technology is used to control the machines themselves, but also in combination with vision technology in order to be able to perform a range of quality control inspections efficiently and accurately. In addition to TKH's tire manufacturing systems delivering high levels of flexibility in the production process, the production line has also been designed so that the machines can be flexibly adapted to meet customer-specific requirements.







## UNEQUALLED BREAKER PRODUCTION FLEXIBILITY

Today's car tires come in many different types and sizes, partly as a result of innovations by tire manufacturers as they continue to introduce new materials and construction techniques in tire production. Together with continually increasing performance demands, this makes the manufacture of car tires ever more complex. In an industry that has always depended on mass production, the need to switch between different runs means that flexibility is essential. With its vision technology and robotization know-how, TKH like no other company can offer innovative solutions for machines producing tire production components.

One of the components produced in tire factories is what is known as a breaker, a rubber strip into which steel wires are embedded at a certain angle. Located just behind the tread of the tires, its purpose is to keep the tread even and protect the tire against punctures. Given the wide range of available tires, it goes without saying that the industry requires many different types of breaker. As an alternative to the traditional process, which requires lengthy retooling interruptions whenever a different size of breaker is to be produced or the type of steel wire or the rubber mixture needs to be changed, TKH has developed the FLEXX 400: an innovative, entirely new machine for the production of breakers, incorporating part of

the UNIXX technology. The FLEXX 400 technology uses an extrusion process rather than rolling. In addition, it uses robots to handle materials. A smart wind-up system ensures that the produced material is immediately ready for use in the next stage of the production process.

One of the many advantages of the technology is that it produces a superior quality material compared with what comes out of the conventional production process. A camera system inside the machine handles a number of quality inspections, providing direct feedback. The process also allows much thinner material layers to be produced, which fits in perfectly with the industry trend to produce tires with a lower weight using less raw material. Another great advantage is that the automatically adjustable robots and cutter together with the smart wind-up reduce the need for process input to simply setting the desired specific dimensions and production length. The machine will automatically switch to the next set of dimensions and start loading the next spool. The absence of any need to interrupt the production process for dimensional changes ensures an unprecedented degree of flexibility. It is all made possible by the way in which TKH continues to innovate as a market leader with more in-house technology than any other company anywhere in the world.

### EDGIQ belt cutter

The EDGIQ belt cutter is a revolutionary cutting and welding system producing high-quality steel belt and chafer materials for radial-ply car tires. The system offers a huge daily production rate, while the innovative cutting system is perfectly adapted to handling the state-of-the-art materials that are found in modern, high-quality car tires.



# SMART VISION AND MONITORING SYSTEM FOR TODAY'S TIRE MANUFACTURERS

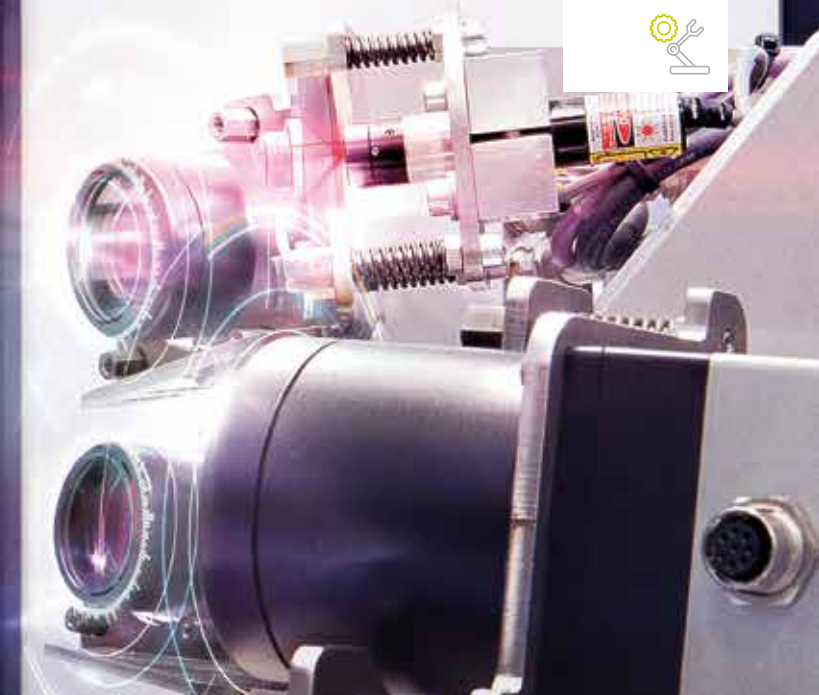
**The production of tires is not only a highly complex process, it also requires speed and flexibility. Consequently, optimizing the automation processes in the tire production industry has become quite a challenge. As successful market leader and innovator in the tire industry, the principles of Industry 4.0 are important.**

Modern manufacturing plants of today and the future demand the widespread deployment of machine intelligence as well as the full integration of the entire production environment. PIXXEL by TKH is a vision and monitoring system that rises to the challenge. TKH owes much of its reputation as the absolute market leader in the tire manufacturing industry to its cutting edge vision technology, together with its highly advanced smart manufacturing technology. Having introduced cameras as part of automated tire production systems many years ago, TKH now adds an extra dimension with the introduction of PIXXEL. Sensors measure all critical parameters during the production process with preset tolerance limits and ensure that these errors can be corrected quickly. The vision and monitoring system results in a much faster production process with improved accuracy.

PIXXEL is even more than that and takes technology a step further, with the software in the system providing visualization that makes the production process easier to follow by its operators. All measurement data are stored centrally and are immediately available for analysis. Tire manufacturers can demonstrate with this output data that they make quality tires that meet specific strict requirements. Another important advantage is that remote service and maintenance is supported. TKH can offer its customers 24/7 'remote guidance' solution. Using a live video link, a TKH engineer looks over the customer's shoulder, as it were live. Thanks to Augmented Reality, the engineer can point out the cause of a problem on the display of the customer's smart phone or tablet, or ask for a closer view of a specific part. The ability to offer professional service at any time by using state-of-the-art technology ensures reduced down-time and rapid production resumption.

In combination with PIXXEL, it is especially significant for TKH's total approach to enable tire manufacturers to offer better, more efficient and more reliable production across the board.

TIRE BUILDING  
INDUSTRY



## PIXXEL

High-quality imaging using the latest sensor technology. Easy-to-use interface with more than 10 tire- and rubber-related applications selectable from a single GUI. Image storage and export for later offline analysis. Integrated platform provides both monitoring and supervision.







## SMART MANUFACTURING IN THE HEALTHCARE MARKET

TKH deploys smart manufacturing technology in response to the stricter quality measures set by the pharmaceutical industry to prevent tablet damage and cross-contamination. In addition, stricter rules apply with regard to materials that come into direct contact with the medicines. The answer to these requirements is a proven industrial robot –called INDIVION– which is equipped with more than 1,000 smart and highly reliable canisters with RFID technology.

Canisters, each containing a medicine type, are put into the machine, after which a robot places these smart canisters on the right docking stations for release. During the subsequent process, the packaging of medicines into bags per dosage time, normally dust –the residue of the medicines– is always released. This leads to contamination of medicines that have to be packaged subsequently. It results in an undesirable mixing of medicines with all the possible consequences that this entails. The INDIVION overcomes this problem by keeping the

drop height of medicines in the system as low as possible. The INDIVION uses a drop height of only 20 centimetres compared to an average drop height of one metre, which is customary in the market. The medicines drop into the INDIVION from the canisters, each of which is unique and contains only medicines that belong in it according to their size. They are also registered separately using software specifically developed for this purpose.

This also helps to prevent errors. The canisters of the INDIVION each have an RFID chip from which a variety of information can be retrieved to know exactly what medicines are in the machine. Single-dose, unit-dose, multi-dose, rush orders, unexpected changes, production to order, all this is made possible via the software that controls the INDIVION. The INDIVION has unrivalled capacity and produces up to 10,000 bags per hour, while providing an absolute minimum risk of cross-contamination and incorrect dosage. INDIVION is also the most cost-effective solution available on the market.

### INDIVION

Unrivalled capacity of up to 10,000 bags per hour. More than 1,000 smart canisters with RFID technology. Equipped with a reliable and durable industrial robot. Maximum drop height of medicines is 20 cm.



# SUMMARIZED FINANCIAL STATEMENTS

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# CONSOLIDATED STATEMENT OF PROFIT AND LOSS

In thousands of euros

	2018	2017 <sup>1</sup>
<b>Total turnover</b>	<b>1,630,826</b>	<b>1,484,801</b>
Raw materials, consumables, trade products and subcontracted work	889,603	816,460
Personnel expenses	380,770	353,791
Other operating expenses	147,961	146,637
Depreciation	27,908	24,774
Amortization	40,313	36,466
Impairments	1,543	1,754
<b>Total operating expenses</b>	<b>1,488,098</b>	<b>1,379,882</b>
<b>Operating result</b>	<b>142,728</b>	<b>104,919</b>
Financial income	1,410	1,459
Financial expenses	-7,843	-8,326
Exchange differences	-291	-1,190
Share in result of associates	1,873	941
Result from available-for-sale financial assets		6,311
Fair value changes of financial liability for squeeze-out, earn-out and put options of shareholders of non-controlling interests	520	3,847
<b>Result before tax</b>	<b>138,397</b>	<b>107,961</b>
Tax on profit	29,661	20,431
<b>Net result</b>	<b>108,736</b>	<b>87,530</b>
Attributable to:		
Shareholders of the company	108,551	86,302
Non-controlling interests	185	1,228
	<b>108,736</b>	<b>87,530</b>
<b>Earnings per share attributable to shareholders</b>		
Ordinary earnings per share (in €)	2.58	2.05
Diluted earnings per share (in €)	2.57	2.04
Ordinary earnings per share before amortization and one-off income and expenses (in €)	2.88	2.27
Ordinary earnings per share before amortization (in €)	2.87	2.32

<sup>1</sup> The comparative figures for 2017 have been restated due to the retrospective application of IFRS 15 'Revenue from contracts with customers'.



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of euros

	2018	2017 <sup>1</sup>
<b>Net result</b>	<b>108,736</b>	<b>87,530</b>
<b>Items that may be reclassified subsequently to profit or loss (net of tax)</b>		
Currency translation differences	-457	-11,926
Currency translation differences in other associates	-149	-490
Effective part of changes in fair value of cash flow hedges (after tax)	-5,903	5,034
Revaluation of available-for-sale financial assets		795
Reclassification to the profit and loss account of available-for-sale financial assets due to disposal		-5,837
	<b>-6,509</b>	<b>-12,424</b>
<b>Items that will not be reclassified subsequently to profit or loss (net of tax)</b>		
Actuarial gains/(losses)	237	22
	<b>237</b>	<b>22</b>
<b>Other comprehensive income (net of tax)</b>	<b>-6,272</b>	<b>-12,402</b>
<b>Comprehensive income for the period (net of tax)</b>	<b>102,464</b>	<b>75,128</b>
<b>Attributable to:</b>		
Shareholders of the company	102,307	73,938
Non-controlling interests	157	1,190
<b>Total comprehensive income for the period (net of tax)</b>	<b>102,464</b>	<b>75,128</b>

<sup>1</sup> The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 'Revenue from contracts with customers'.

# CONSOLIDATED BALANCE SHEET

In thousands of euros	31-12-2018	31-12-2017 <sup>1</sup>	In thousands of euros	31-12-2018	31-12-2017 <sup>1</sup>
<b>ASSETS</b>			<b>EQUITY AND LIABILITIES</b>		
<b>Non-current assets</b>			<b>Group Equity</b>		
Intangible non-current assets	544,098	392,152	Shareholders' equity	646,459	594,357
Tangible non-current assets	245,392	229,212	Non-controlling interests	1,190	8,440
Investment property	251	251	<b>Total group equity</b>	<b>647,649</b>	<b>602,797</b>
Other associates	12,047	10,566	<b>Non-current liabilities</b>		
Receivables	2,007	2,960	Non-current liabilities	238,537	187,335
Deferred tax assets	17,104	14,234	Deferred tax liabilities	60,398	43,388
<b>Total non-current assets</b>	<b>820,899</b>	<b>649,375</b>	Retirement benefit obligation	7,984	8,172
<b>Current assets</b>			Financial liabilities	588	2,890
Inventories	254,963	218,805	Provisions	5,217	4,955
Receivables	223,473	217,198	<b>Total non-current liabilities</b>	<b>312,724</b>	<b>246,740</b>
Contract assets	140,135	94,606	<b>Current liabilities</b>		
Contract costs	3,555	12,282	Borrowings <sup>2</sup>	170,569	57,350
Current income tax	1,081	2,805	Trade payables and other payables	314,613	286,348
Cash and cash equivalents <sup>2</sup>	83,180	87,719	Contract liabilities	57,032	60,267
<b>Total current assets</b>	<b>706,387</b>	<b>633,415</b>	Current income tax liabilities	6,924	5,762
			Financial liabilities	4,831	11,781
			Provisions	12,944	11,745
			<b>Total current liabilities</b>	<b>566,913</b>	<b>433,253</b>
<b>Total assets</b>	<b>1,527,286</b>	<b>1,282,790</b>	<b>Total equity and liabilities</b>	<b>1,527,286</b>	<b>1,282,790</b>

<sup>1</sup> The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 'Revenue from contracts with customers'. In addition, the amount of the deferred tax assets and liabilities was reduced by a netting of € 8.8 million.

<sup>2</sup> Including € 22.3 million (2017: €42.0 million) cash and cash equivalents that are part of cash and interest pools. These cash and cash equivalents are not netted in the consolidated balance sheet.

# CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

In thousands of euros	Share capital	Share premium	Legal reserve	Revaluation reserve	Fair value reserve of financial assets at FVOCI	Translation reserve	Cashflow hedge reserve	Retained earnings	Unappropriated profit	Total shareholders' equity	Non-controlling interests	Total group equity
<b>Balance at 1 January 2017 before IFRS 15 restatement</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>
IFRS 15 Restatement								1,335		1,335		1,335
<b>Balance at 1 January 2017 after IFRS 15 restatement</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>326,218</b>	<b>85,707</b>	<b>575,335</b>	<b>8,520</b>	<b>583,855</b>
Net result									86,302	86,302	1,228	87,530
Reclassification to the profit and loss account of available-for-sale financial assets due to disposal					-5,837					-5,837		-5,837
Total other comprehensive income					795	-12,378	5,034	22		-6,527	-38	-6,565
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-5,042</b>	<b>-12,378</b>	<b>5,034</b>	<b>22</b>	<b>86,302</b>	<b>73,938</b>	<b>1,190</b>	<b>75,128</b>
Appropriation profit last year								85,707	-85,707	0		0
Dividends								-46,237		-46,237		-46,237
Dividends to shareholders of non-controlling interests								-527		-527	-1,284	-1,811
Acquisition of non-controlling interests								-12		-12	14	2
Reversal of revaluation				-227				227		0		0
Share and option schemes								2,315		2,315		2,315
Purchased shares for share and option schemes								-17,496		-17,496		-17,496
Sold shares for share and option schemes								7,041		7,041		7,041
Change in legal reserve for participations			942					-942		0		0
Capitalized development costs			10,978					-10,978		0		0
<b>Balance at 31 December 2017</b>	<b>10,709</b>	<b>85,021</b>	<b>55,133</b>	<b>188</b>	<b>0</b>	<b>9,225</b>	<b>2,441</b>	<b>345,338</b>	<b>86,302</b>	<b>594,357</b>	<b>8,440</b>	<b>602,797</b>
IFRS 9 restatement								-812		-812	-3	-815
<b>Balance at 1 January 2018 after IFRS 9 restatement</b>	<b>10,709</b>	<b>85,021</b>	<b>55,133</b>	<b>188</b>	<b>0</b>	<b>9,225</b>	<b>2,441</b>	<b>344,526</b>	<b>86,302</b>	<b>593,545</b>	<b>8,437</b>	<b>601,982</b>
Net result									108,551	108,551	185	108,736
Total other comprehensive income						-578	-5,903	237		-6,244	-28	-6,272
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-578</b>	<b>-5,903</b>	<b>237</b>	<b>108,551</b>	<b>102,307</b>	<b>157</b>	<b>102,464</b>
Appropriation profit last year								86,302	-86,302	0		0
Dividends								-50,435		-50,435	-58	-50,493
Dividends to shareholders of non-controlling interests								-1,104		-1,104		-1,104
Acquisition of non-controlling interests								7,346		7,346	-7,346	0
Share and option schemes								2,303		2,303		2,303
Purchased shares for share and option schemes								-13,482		-13,482		-13,482
Sold shares for share and option schemes								5,979		5,979		5,979
Change in legal reserve for participations			-605					605		0		0
Capitalized development costs			9,595					-9,595		0		0
Reclassifications						-310		310		0		0
<b>Balance at 31 December 2018</b>	<b>10,709</b>	<b>85,021</b>	<b>64,123</b>	<b>188</b>	<b>0</b>	<b>8,337</b>	<b>-3,462</b>	<b>372,992</b>	<b>108,551</b>	<b>646,459</b>	<b>1,190</b>	<b>647,649</b>

# CONSOLIDATED CASH FLOW STATEMENT

In thousands of euros	Notes	2018	2017 <sup>1</sup>
<b>Cash flow from operating activities</b>			
Operating result		142,728	104,919
Depreciation, amortization and impairment		69,957	62,087
Share and option schemes not resulting in a cash flow		2,303	2,315
Result on disposals		-193	292
Changes in provisions		1,114	543
Changes in working capital		-55,169	26,104
<b>Cash flow from operations</b>		<b>160,740</b>	<b>196,260</b>
Interest received		1,410	1,461
Interest paid		-7,394	-8,091
Income taxes paid		-28,038	-30,044
<b>Net cash flow from operating activities (A)</b>		<b>126,718</b>	<b>159,586</b>
<b>Cash flow from investing activities</b>			
Dividends received from non-consolidated associates		243	634
Repayments on loans		971	
Loans			-483
Purchases of tangible non-current assets		-40,921	-44,118
Disposals of tangible non-current assets		894	1,000
Net cash flow on investments and divestments of investment property			1,240
Disposal available-for-sale financial asset			12,097
Acquisition of subsidiaries less cash and cash equivalents acquired		-116,229	-5,821
Acquisition of associates			-50
Investments in intangible non-current assets		-35,218	-35,064
Divestments in intangible non-current assets		33	226
<b>Net cash flow from investing activities (B)</b>		<b>-190,227</b>	<b>-70,339</b>

In thousands of euros	2018	2017 <sup>1</sup>
<b>Cash flow from financing activities</b>		
Dividends paid	-51,597	-48,048
Settlement of financial liabilities regarding put options of non-controlling interests, earn-out and squeeze-out	-251	-4,664
Acquisition of non-controlling interests	-9,000	316
Purchased shares for share and option schemes	-13,482	-17,496
Sold shares for share and option schemes	5,979	7,041
Proceeds from long-term debts	52,745	
Repayments on long-term debts		-27,158
(Repayments) / proceeds from other long-term debts	-1,779	380
Change in borrowings	99,642	-11,537
<b>Net cash flow from financing activities (C)</b>	<b>82,257</b>	<b>-101,166</b>
<b>Net increase/(decrease) in cash and cash equivalents (A+B+C)</b>	<b>18,748</b>	<b>-11,919</b>
Exchange differences	-3,556	-1,072
<b>Change in cash and cash equivalents</b>	<b>15,192</b>	<b>-12,991</b>
Cash and cash equivalents at 1 January	45,713	58,704
<b>Cash and cash equivalents at 31 December</b>	<b>60,905</b>	<b>45,713</b>

<sup>1</sup> The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 'Revenue from contracts with customers'



# NOTES TO THE SUMMARIZED FINANCIAL STATEMENTS

## SUMMARIZED FINANCIAL STATEMENTS

This condensed Annual Report 2018 is a summarized version of the full annual report 2018 of TKH. The full Annual Report 2018 is the official reporting document for Dutch statutory purposes. The financial overviews in the summarized financial statements are derived from the audited financial statements 2018 of TKH, which is part of the full Annual Report 2018. At those financial statements, an Independent Auditor's Report is provided. The financial overviews should be read in conjunction with the financial statements, from which these have been derived. For (interpretation) differences and/or discrepancies, the full annual report 2018 prevails. The full Annual Report 2018 (including Financial Statements) can be downloaded from the website of TKH: [www.tkhgroup.com](http://www.tkhgroup.com).

## ACCOUNTING PRINCIPLES

The consolidated financial statements of TKH Group NV (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 2018. The principles for the recognition and measurement of assets and liabilities and determination of the result, as prescribed by IFRS, have not been included in the financial statements. For a complete overview is referred to the full financial statements of TKH.

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

## NEW ACCOUNTING STANDARDS

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of IFRS 9 has an impact on the valuation and presentation of financial instruments depending on their contractual cash flows 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' the allowance for doubtful debts has increased. TKH applies a risk matrix, using historical credit risk experience (adjusted if necessary) to estimate the expected credit risk on trade and other receivables and contract assets. This approach has not led to a material effect on the credit loss allowance.

In addition, TKH has provided loans to start-up technology companies, which were valued under IAS 39 at amortized cost using the effective interest method. The classification of a financial asset at initial recognition depends, under IFRS 9, on the contractual cash flow characteristics and the business

model of TKH to manage them. A financial asset can only be classified and valued at amortized cost or fair value through OCI if it generates cash flows that consist solely of repayment and interest ('SPPI') on the outstanding principal. The cash flows consist not only of repayment and interest on the outstanding principal, but also a compensation that is linked to the performance of the borrower. Because of this compensation and the negative equity of the borrower, the loans qualify as valued at fair value with changes in value through the statement of profit and loss. The fair value of the loans is calculated under IFRS 9 based on contractual cash flows discounted at the estimated market interest rate. This resulted in a € 1.0 million lower book value.

The amended rules regarding hedge accounting do not affect the financial statements, because TKH will continue to apply IAS 39.

TKH applies IFRS 9 from 1 January 2018 without any adjustment of the comparative figures. Under IAS 39, the financial assets were classified as 'loans and receivables' and valued at amortized cost.

IFRS 15 Revenue from Contracts with Customers replaces the standards IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. 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. In addition, a new principle regarding the recognition of revenue over a period of time has been introduced. This has an impact on the timing and the amount of the revenues that are accounted for. 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. The main impact for TKH concerns the following aspects from IFRS 15:

- Certain products and systems are so customer specific that an alternative use is not possible for other customers. At the same time TKH has an enforceable right to payment for the performance completed to-date. As a result of this, the turnover is no longer to be accounted for at-a-point in time, but over time. This change mainly concerns customer-specific cables, cablesystems and machine vision systems.
- Under IFRS 15, optional payment discounts are considered to be part of the transaction price. This is currently accounted for at the moment that the customer uses this discount. However, this discount must be recognized at an earlier stage, namely when the turnover is recognized.
- Under IFRS 15, indirect costs, such as administration and management costs, can not be a part of the contract assets, unless explicitly stated in the contract that it can be charged. Also, the incremental commission costs as a result of obtaining a contract are classified separately as contract costs and amortized over the expected contract duration. In addition, waste, occupancy losses and

inefficiencies as far as they are abnormal, must be recognized as period costs, while these costs were previously allocated to projects. These adjustments result in a revision of the project costs and therefore to a lower progress percentage and thus a deferred profit recognition.

- The provision for expected losses on contracts with customers, for which contracts the turnover is recognized over a period, is no longer netted against the contract assets, but is reclassified to other provisions for onerous contracts.

TKH applied the aforementioned changes completely retrospectively, with restatement of the comparative figures for 2017. A number of practical exceptions have been applied. Completed contracts are not revised if they (i) start and end in 2017 or (ii) are completed as of January 1, 2017.

The application of IFRS 15 has no material impact on equity as at 31 December 2017 and the results for 2017. The impact of IFRS 15 on the consolidated statement of profit and loss 2017 is as follows:

In thousands of euros	2017	IFRS 15 restatement	2017 restated
<b>Total turnover</b>	<b>1,484,456</b>	<b>345</b>	<b>1,484,801</b>
Raw materials, consumables, trade products and subcontracted work	814,780	1,680	816,460
Personnel expenses	353,791		353,791
Other operating expenses	146,637		146,637
Depreciation	24,774		24,774
Amortization	36,466		36,466
Impairments	1,754		1,754
<b>Total operating expenses</b>	<b>1,378,202</b>	<b>1,680</b>	<b>1,379,882</b>
<b>Operating result</b>	<b>106,254</b>	<b>-1,335</b>	<b>104,919</b>
<b>Result before tax</b>	<b>109,296</b>	<b>-1,335</b>	<b>107,961</b>
Tax on profit	20,744	-313	20,431
<b>Net result</b>	<b>88,552</b>	<b>-1,022</b>	<b>87,530</b>
<b>Consolidated statement of comprehensive income</b>			
Total comprehensive income for the period (net of tax)	76,178	-1,050	75,128
Ordinary earnings per share (in €)	2.08	-0.03	2.05
Diluted earnings per share (in €)	2.06	-0.02	2.04
Ordinary earnings per share before amortization and one-off income and expenses (in €)	2.30	-0.03	2.27
Ordinary earnings per share before amortization (in €)	2.34	-0.02	2.32

The impact of IFRS 15 on the consolidated balance sheet as at 31 December 2017 and the impact of IFRS 9 on the opening balance sheet as at 1 January 2018 is as follows:

In thousands of euros	31-12-2017	IFRS 15 restatement	Restated balance sheet 31-12-2017	IFRS 9 restatement	Restated balance sheet 1-1-2018
<b>Non-current assets</b>					
Deferred tax assets	13,015	1,219	14,234	249	14,483
<b>Current assets</b>					
Inventories	233,626	-14,821	218,805		218,805
Receivables	217,377	-179	217,198	-1,061	216,137
Amounts due from customers under construction contracts	86,803	-86,803	0		0
Contract costs		12,282	12,282		12,282
Contract assets		94,606	94,606		94,606
<b>Group Equity</b>					
Total group equity	602,512	285	602,797	-812	601,985
<b>Non-current liabilities</b>					
Deferred tax liabilities	41,658	1,730	43,388		43,388
<b>Current liabilities</b>					
Amounts due to customers under construction contracts	60,267	-60,267	0		0
Contract liabilities		60,267	60,267		60,267
Provisions	7,456	4,289	11,745		11,745

IFRS 16 Leases provides for a lease accounting model whereby the lessee has to include the assets and liabilities in respect of lease agreements on the balance sheet. The application of IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. TKH has not opted for an earlier application of IFRS 16. At initial adoption, TKH will opt for a 'limited retrospective method', whereby the comparative figures will not be adjusted and the cumulative effect will be recognized in equity as at 1 January 2019. The lease liability is calculated based on the present value of the remaining payments after the first application date using the incremental borrowing rate on 1 January 2019. At first recognition of the lease asset, TKH will choose the option to equate the initial value of the lease asset to the amount of the lease liabilities. TKH will also apply the exemption for leases of assets with a low value and for leases with a term shorter than 12 months. The service costs for lease objects will be recognized separately and will therefore not be valued in non-current assets ('right-of-use assets') and lease obligations. The right-of-use assets and lease liabilities are expected to increase by approximately € 89 million and € 92 million respectively. The presentation in the statement of profit and loss will also change because depreciation and interest expenses will replace the recorded costs for operating leases under other operating expenses. However, the impact on the net result is not expected to be material. It has been agreed with the banking group that the amendments based on IFRS 16 will have no impact on the bank covenant during the term of the current financing.

## 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 full Annual Report a detailed overview of the subsidiaries and its 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		Other and eliminations		Total	
	2018	2017 <sup>1</sup>	2018	2017 <sup>1</sup>	2018	2017 <sup>1</sup>	2018	2017 <sup>1</sup>	2018	2017 <sup>1</sup>
<b>Revenue per subsegment</b>										
Indoor telecom systems & copper networks	69,455	69,006							69,455	69,006
Fibre network systems	125,074	122,439							125,074	122,439
Building connectivity systems			315,327	277,598					315,327	277,598
Vision & security systems			388,349	358,646					388,349	358,646
Industrial connectivity systems					298,641	267,157			298,641	267,157
Manufacturing systems					433,980	389,955			433,980	389,955
<b>Total turnover</b>	<b>194,529</b>	<b>191,445</b>	<b>703,676</b>	<b>636,244</b>	<b>732,621</b>	<b>657,112</b>	<b>0</b>	<b>0</b>	<b>1,630,826</b>	<b>1,484,801</b>
<b>Timing of revenue recognition</b>										
Revenue at a point-in-time	192,470	188,920	615,665	565,572	262,854	228,493			1,070,989	982,985
Revenue over time	1,987	1,785	87,467	68,618	469,476	426,605			558,930	497,008
<b>Revenues from contracts with customers</b>	<b>194,457</b>	<b>190,705</b>	<b>703,132</b>	<b>634,190</b>	<b>732,330</b>	<b>655,098</b>	<b>0</b>	<b>0</b>	<b>1,629,919</b>	<b>1,479,993</b>
Other revenues	72	740	544	2,054	291	2,014			907	4,808
<b>Total turnover</b>	<b>194,529</b>	<b>191,445</b>	<b>703,676</b>	<b>636,244</b>	<b>732,621</b>	<b>657,112</b>	<b>0</b>	<b>0</b>	<b>1,630,826</b>	<b>1,484,801</b>
<b>Result</b>										
EBITA before one-off expenses	28,139	25,883	67,837	52,277	105,740	87,241	-17,132	-15,958	184,584	149,443
<i>ROS</i>	<i>14.5%</i>	<i>13.5%</i>	<i>9.6%</i>	<i>8.2%</i>	<i>14.4%</i>	<i>13.3%</i>			<i>11.3%</i>	<i>10.1%</i>
One-off expenses				-6,124		-180			0	-6,304
Amortization	-1,164	-1,179	-30,301	-27,099	-8,828	-8,158	-20	-30	-40,313	-36,466
Impairments	4	111	-238	-1,412	-1,309	-453			-1,543	-1,754
<b>Segment operating result</b>	<b>26,979</b>	<b>24,815</b>	<b>37,298</b>	<b>17,642</b>	<b>95,603</b>	<b>78,450</b>	<b>-17,152</b>	<b>-15,988</b>	<b>142,728</b>	<b>104,919</b>
<b>Other information</b>										
Investments in intangible and tangible non-current assets	7,247	8,155	199,334	48,042	30,874	27,176	314	447	237,769	83,820
Depreciation and amortization	4,682	4,784	43,799	37,519	19,434	18,627	306	310	68,221	61,240
Employees (FTE)	726	702	2,966	2,655	2,810	2,517	31	26	6,533	5,900
<b>Balance sheet</b>										
Assets	166,514	160,165	851,875	658,961	491,825	440,567	5,025	12,531	1,515,239	1,272,224
Other associates	9,282	9,954	2,731	579	32	33	2		12,047	10,566
<b>Consolidated total assets</b>	<b>175,796</b>	<b>170,119</b>	<b>854,606</b>	<b>659,540</b>	<b>491,857</b>	<b>440,600</b>	<b>5,027</b>	<b>12,531</b>	<b>1,527,286</b>	<b>1,282,790</b>
<b>Liabilities</b>	<b>44,554</b>	<b>43,884</b>	<b>187,311</b>	<b>167,287</b>	<b>225,333</b>	<b>195,981</b>	<b>422,439</b>	<b>272,841</b>	<b>879,637</b>	<b>679,993</b>

<sup>1</sup> The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 'Revenue from contracts with customers'.

In thousands of euros	Total turnover <sup>1</sup>	
	2018	2017
<b>Vertical markets</b>		
Fibre Optics Networks	133,749	127,322
Parking	58,404	46,949
Tunnel & Infra	97,974	77,792
Marine & Offshore	69,004	58,078
Care	58,043	51,999
Machine Vision	128,923	127,676
Tire Building Industry	332,837	294,620
Other vertical markets	751,892	700,365
<b>Total turnover</b>	<b>1,630,826</b>	<b>1,484,801</b>

<sup>1</sup> The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 'Revenue from contracts with customers'.

The turnover in the vertical growth market Fiber Optic Networks is mainly realized in Telecom Solutions. Tire Building Industry mainly concerns the segment Industrial Solutions, while Care covers both Building Solutions and Industrial Solutions. The other vertical growth markets mainly relate to Building Solutions.

In thousands of euros (unless stated otherwise)	Total turnover <sup>1</sup>		Non-current assets <sup>2</sup>		Employees (FTE)	
	2018	2017	2018	2017	2018	2017
<b>Geographic segments</b>						
Netherlands	318,345	279,174	234,833	231,212	33%	35%
Europe (other)	731,895	699,442	421,897	269,585	44%	41%
Asia	349,069	292,879	78,090	71,732	15%	16%
North America	186,826	152,244	60,930	54,925	7%	7%
Other	44,691	61,062	8,045	7,687	1%	1%
<b>Total</b>	<b>1,630,826</b>	<b>1,484,801</b>	<b>803,795</b>	<b>635,141</b>	<b>100%</b>	<b>100%</b>

<sup>1</sup> The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 'Revenue from contracts with customers'.

<sup>2</sup> Non-current assets are excluding the deferred tax assets.

Turnover in Telecom Solutions is realized for 90% in Europe (including the Netherlands). In Building Solutions there is more spread across the regions, with the majority in Europe (including the Netherlands) being 65% of the turnover. In Industrial Solutions, Europe and North America represent a total of 77% of turnover.

## OVERVIEW OF NET PROFIT DEFINITIONS

in thousands of euros (unless stated otherwise)	2018	2017 <sup>1</sup>
Net profit	108,736	87,530
Less: Non-controlling interests	-185	-1,228
<b>Net profit attributable to the shareholders of the company</b>	<b>108,551</b>	<b>86,302</b>
Net profit	108,736	87,530
Amortization of intangible non-current assets from acquisitions	16,318	15,246
Taxes on amortization	-4,413	-4,130
<b>Net profit before amortization</b>	<b>120,641</b>	<b>98,646</b>
Less: Non-controlling interests	-185	-1,228
<b>Net profit before amortization attributable to the shareholders of the company</b>	<b>120,456</b>	<b>97,418</b>
Net profit before amortization	120,641	98,646
Restructuring costs		6,304
One-off income due to sale of Nedap shares		-5,837
Impairments	1,543	1,754
Change in value of financial liability for squeeze-out, earn-out and put options of shareholders of non-controlling interests	-520	-3,847
Tax impact on one-off expenses and benefits	-386	-2,015
One-off tax charge/(benefit)		1,817
<b>Profit before amortization and one-off income and expenses</b>	<b>121,278</b>	<b>96,822</b>
Less: Non-controlling interests	-185	-1,228
<b>Net profit before amortization and one-off income and expenses attributable to the shareholders of the company</b>	<b>121,093</b>	<b>95,594</b>

<sup>1</sup> The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 'Revenue from contracts with customers'.



# PROPOSAL FOR PROFIT APPROPRIATION

in thousands of euros

Net profit attributable to shareholders € 108,551.

In accordance with Article 33 of the articles of association, we propose paying the holders of (depository receipts of) ordinary shares a dividend of € 1.40 per (depository receipt of) ordinary share.

The dividend will be made available for payment on 13 May 2019.

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.

## OUR OPINION

The summary financial statements 2018 (hereinafter: the summary financial statements) of TKH Group N.V. in Haaksbergen is derived from the audited financial statements 2018 of TKH Group N.V.

In our opinion the accompanying financial statements are consistent, in all material aspects, with the audited financial statements 2018 of TKH Group N.V., on the basis as described in the related explanatory notes.

### The summary financial statements comprise:

- the consolidated balance sheet at 31 December 2018
- the following statements over 2018:
  - the consolidated statement of profit and loss
  - the consolidated statement of comprehensive income
  - the consolidated statement of changes in group equity and the consolidated cash flow statement
- the accompanying related explanatory information

## SUMMARY FINANCIAL STATEMENTS

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards as adopted by the European Union (IFRS-EU). Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of TKH Group N.V. and our auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent after the date of our report on those financial statements of 4 March 2019.

## THE AUDITED FINANCIAL STATEMENTS AND OUR AUDITOR'S REPORT THEREON

We expressed an unqualified audit opinion on the financial statements 2018 of TKH Group N.V. in our auditor's report of 4 March 2019.

## RESPONSIBILITIES OF THE EXECUTIVE AND SUPERVISORY BOARD FOR THE SUMMARY FINANCIAL STATEMENTS

The Executive Board is responsible for the preparation of the summary financial statements on the basis as described in the related explanatory notes. The Supervisory Board is responsible for overseeing the financial reporting process of the entity.

## OUR RESPONSIBILITIES

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material aspects, with the audited financial statements based on our procedures, which we conducted in accordance with Dutch Standard 810, "Opdrachten om te rapporteren betreffende samengevatte financiële overzichten" (Engagements to report on summary financial statements).

Zwolle, 22 March 2019

Ernst & Young Accountants LLP  
A.E. Wijnsma

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HQ = Headquarters

# TEN YEARS OVERVIEW

in millions of euros

	2018	2017 <sup>1</sup>	2016	2015	2014	2013	2012	2011	2010	2009
<b>Consolidated profit and loss account</b>										
<b>Total turnover</b>	<b>1,631</b>	<b>1,485</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>
Raw materials, consumables, trade products and subcontracted work	890	817	710	743	770	699	652	649	545	430
Personnel expenses	381	347	331	326	296	277	234	210	174	158
Depreciation <sup>2</sup>	28	25	22	22	20	19	17	15	14	16
Other operating expenses	147	147	131	133	124	103	113	95	88	81
<b>Total operating expenses</b>	<b>1,446</b>	<b>1,336</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>EBITA before one-off income and expenses</b>	<b>185</b>	<b>149</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>
One-off income and expenses		6			9	-7	-12	-2		-12
<b>EBITA</b>	<b>185</b>	<b>143</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>
Impairments	2	2	1	1	1					4
Amortization	40	37	33	32	26	26	21	13	11	9
<b>Operating result</b>	<b>143</b>	<b>104</b>	<b>113</b>	<b>118</b>	<b>118</b>	<b>67</b>	<b>53</b>	<b>77</b>	<b>62</b>	<b>16</b>
Financial result	-5		-7	-7	-10	-13	-12	-7	-7	-11
Change in value of financial liability for squeeze-out, earn-out and put options of shareholders of non-controlling interests		4	1							
<b>Result on ordinary activities before taxes</b>	<b>138</b>	<b>108</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>
Taxes	29	20	20	23	22	12	10	16	14	2
<b>Net result</b>	<b>109</b>	<b>88</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>
Non-controlling interests		1	1	2	3	5	3	1	1	
Attributable to shareholders	109	87	86	86	83	37	28	53	40	3

**Key figures** in % (unless stated otherwise)

	2018	2017 <sup>1</sup>	2016	2015	2014	2013	2012	2011	2010	2009
EBITA/turnover (ROS) <sup>3</sup>	11.3	10.1	10.9	11.0	10.0	8.3	7.8	8.7	8.2	5.6
Net result/group equity <sup>2 3</sup>	18.7	16.1	16.5	19.3	17.8	13.7	11.7	16.5	13.9	6.4
EBITA/average capital employed (ROCE)	21.3	19.7	20.1	22.1	21.2	15.9	15.9	21.5	20.0	9.8
Net debt/EBITDA ratio <sup>2 3</sup>	1.5	0.9	1.0	0.9	1.0	1.5	1.6	0.9	0.7	1.2
Net result before amortization and one-off income and expenses/turnover <sup>2 3</sup>	7.4	6.5	7.2	7.4	6.6	5.0	4.5	5.6	5.0	2.5

<sup>1</sup> The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 Revenue from contracts with customers.

<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 2016 up to 2014. The years 2009 up to 2013 have not been restated.

<sup>3</sup> Before one-off income and expenses. The one-off income and expenses in 2017 concern restructuring costs of € 6.3 million, impairment losses of € 1.8 million, release of financial obligations for squeeze-out, earn-out and put options for € 3.8 million, book profit of € 5.8 million on the sale of the 5.06% interest in Nedap and a tax benefit of € 0.2 million. 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	2018	2017 <sup>1</sup>	2016	2015	2014	2013	2012	2011	2010	2009
<b>Consolidated balance sheet</b>										
Intangible non-current assets	544	392	395	400	352	349	343	204	168	167
Tangible non-current assets <sup>2</sup>	246	229	215	196	176	199	195	171	157	151
Financial non-current assets	31	28	46	34	28	30	31	23	19	10
<b>Total non-current assets</b>	<b>821</b>	<b>649</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>
Inventories	255	219	207	194	202	185	197	165	138	115
Receivables	368	327	295	248	288	234	201	187	165	146
Cash and cash equivalents	83	88	88	179	145	80	66	29	23	44
<b>Total current assets</b>	<b>706</b>	<b>634</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>
Assets held for sale					3		7	7	7	9
<b>Total assets</b>	<b>1,527</b>	<b>1,283</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>
Shareholders' equity <sup>2</sup>	647	594	574	521	483	378	364	356	317	281
Non-controlling interests	1	9	9	9	17	61	60	2	2	1
<b>Group Equity</b>	<b>648</b>	<b>603</b>	<b>583</b>	<b>530</b>	<b>500</b>	<b>439</b>	<b>424</b>	<b>358</b>	<b>319</b>	<b>282</b>
Provisions <sup>2</sup>	86	69	74	71	68	112	105	75	54	64
Non-current liabilities	239	187	214	223	259	259	202	124	55	72
Borrowings	171	57	52	126	59	15	60	4	32	41
Financial liabilities	5	15	23	27	14					
Other current liabilities	378	352	300	274	294	252	249	225	217	183
<b>Total equity and liabilities</b>	<b>1,527</b>	<b>1,283</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>Other information</b> in euros (unless stated otherwise)	<b>2018</b>	<b>2017<sup>1</sup></b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Solvency (in %)	42	47	47	42	42	41	41	46	47	44
Investments in tangible non-current assets	42	41	46	38	34	19	25	22	21	11
Depreciations of tangible non-current assets	28	24	23	23	20	19	17	15	14	17
Cash flow from operating activities	127	160	103	182	95	79	75	47	55	152
Number of shares outstanding and held by third parties at year end (x 1,000)	42,003	42,045	42,161	41,724	41,400	37,985	37,658	37,284	36,885	36,293
Net result per ordinary share of € 0.25	2.58	2.05	2.04	2.07	2.14	0.98	0.76	1.44	1.10	0.07
Net result before one-off income and expenses and amortization per share	2.88	2.27	2.25	2.40	2.23	1.48	1.27	1.63	1.21	0.49
Dividend per share	1.40	1.20	1.10	1.10	1.00	0.75	0.65	0.75	0.61	0.50
Highest share price	60.15	56.68	38.14	40.50	27.18	26.40	20.86	23.80	19.61	13.95
Lowest share price	38.36	36.45	28.47	25.35	22.13	18.55	15.41	13.24	12.52	6.35
Share price at year-end	40.70	52.93	37.59	37.44	26.36	25.40	19.50	16.95	19.61	13.95

<sup>1</sup> The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 Revenue from contracts with customers.

<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 2009 up to 2013 have not been restated.

# REPORTING SYSTEM CSR

## PROCEDURES, STANDARDS AND GUIDELINES

In the Annual Report 2018, we provide an account of, among other things, our performance in the area of CSR during the year under review from 1 January 2018 up to 31 December 2018. The legal publication date of the report is 25 March 2019. We discuss the topics that have been an integral part of our CSR policy for several years. We report in line with the Global Reporting Initiative (GRI) 'core'. 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 GRI guidelines were used to define and set our KPIs. In the GRI 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.

The principle of Integrated Reporting is further implemented in the management report of the Annual Report 2018. 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 Report of the Executive Board on the basis of qualitative and quantitative information. 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 ISO 50001 standard for energy performance, the CSR Performance Ladder and the Dutch Corporate Governance Code and the Sustainable Development Goals. In addition, we used the findings and recommendations on the basis of providing information on the CDP platform, Ecovadis, Vigeo and MSCI.

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 most of our emissions occurs within those scopes. We have expanded our internal dashboard with scope 3 components, but have not yet implemented a scope extension for CO<sub>2</sub> emissions in our calculation model. We expect to be able to make this step in time.

Emission factors are values that are used to convert the amounts of energy used into the amount of CO<sub>2</sub> emissions. 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. The list has been compiled with care and TKH offers the benefit of one reliable, verifiable source for almost all emission factors.

From the European directive on energy efficiency (2012/27 / EU) the obligation applies to member-states to ensure that large companies undergo an energy audit. The energy audit is a systematic, four-yearly approach with the aim of gathering information about the current energy consumption of a company. The energy audit provides a detailed overview of all existing energy flows within the company. We use the input from those TKH subsidiaries that belong to the defined scope and must carry out a mandatory energy audit, for the reporting on energy reduction and improvement plans to be implemented. The same applies to the input due to the ISO 50001 certification for energy performance from the German subsidiaries.

The products delivered by TKH comply with the European directives REACH (Registration, Evaluation and Authorization of Chemicals) and ROHS (Restriction of Hazardous Substances). 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.

In the context of human rights, TKH acts in the business activities according to the 'Universal Declaration of Human Rights'. We refer to our code of conduct and the code of supply (both of which 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 provided our input 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 further implementation of it within our management. We also provided ESG (environmental, social & governance) information on platforms of MSCI, Vigeo and S&P Dow Jones Indices.

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. For benchmarking employee satisfaction in an international perspective, we use 'The Global Employee Engagement Index™'.

TKH Group is an active member of industrial and branch organizations.

- FTTH Council in Europe, North America, the Middle East, North Africa, Latin America and Asia-Pacific. This non-profit organization is established to accelerate Fibre To The Home (FTTH) technology. Members are manufacturers, system designers, consultancies and academic organizations.
- The International Cablemakers Federation (ICF) represents the largest part of the worldwide production capacity of the Wire & Cable Industry. As Federation of the world's leading wire and cable producers, this provides a worldwide forum for members to increase the visibility of the industry by highlighting the relevance of its products and technologies, as well as its contribution to the sustainable progress of the society.
- EMVA: is represented in more than 20 countries with the aim to promote the development and use of machine vision technology and to support the interests of its members.
- Retread tire Association: association for suppliers of the renewal and tire repair industry.

## 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 relates to a multi-year period. In this way we aim to achieve consistency in our policy. The materiality matrix is a dynamic model so that it is frequently assessed whether adjustments are necessary in the up-scaling or downward adjustment of themes. 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 with a low classification and concerning the topics water and local presence. Set against the impact it has on our overall business operations, we have given a lower priority to these topics.

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

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

In the year under review, some shifts in themes were implemented in the materiality matrix. The reason for this is, among other things, the social relevance that a subject has received or because of (changed) legislation. Topics that have received a higher priority are diversity in the workforce, IT Security & Privacy and a prudent tax policy.

### SCOPE AND CHANGES COMPARED TO LAST YEAR

The CSR policy is not adjusted in 2018. 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. There have also been no changes in structure or ownership. 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. During the year under review, there were no changes to the legal structure, ownership or supply chain of the organization.

### INTERNAL CONTROL

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. All reported differences greater than 10% compared with the previous year have been explicitly investigated. TKH's Internal Audit carries out audit reviews on

the processes to be performed and the accuracy of the data as a permanent part of its work program. Internal Audit has spent specific attention during its audit work on compliance with the code of conduct within our subsidiaries and the implementation of the code of supply at strategic suppliers.

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 guidelines. You can download the GRI index on the TKH-website.

### THE FOLLOWING GROUPS PROVIDED INPUT FOR THE CONTENT OF TKH'S CSR REPORT.

#### Shareholders

- CSR was discussed in the course of dealing with the 2016 Annual Report in the AGM on 3 May 2018.
- 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 during the meeting with a delegation of the Supervisory Board 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.
- Via internal communication channels between our subsidiaries.

#### Customers and suppliers

- Input through value-chain consultation and discussing themes that concern the code of supply.
- Through customer satisfaction surveys.

#### Stakeholders dialogue (see report Executive Board)

#### External rating information platforms

- By providing information on external information platforms, we can see which information certain target groups consider relevant so that we can adjust our internal information provision accordingly.

#### Experts / knowledge sessions

- We have gathered knowledge about CSR developments through meetings with experts in the field of sustainability themes.

### 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 and member of the Management Board) 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 collaboration with the Director Finance & Control, who is also a member of the Management Board, due to reporting on CSR issues at the subsidiaries. There is also close cooperation with TKH's Director Internal Audit in relation to his auditing of CSR themes during the audit reviews.

New CSR initiatives are preferably developed in working groups. This expedites the 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. Contacts with the confidential officers rely on the operation of the TKH code of conduct and the associated Whistleblowers regulations. With purchasing managers, themes are discussed that concern the code of supply. The Company Secretary, responsible for CSR, is frequently involved in these discussions.

The Executive Board discusses progress in CSR at least every quarter with the (clusters of) subsidiaries. This is based on financial and non-financial 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).

# 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 2018 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.

**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 cash and cash equivalents.\*

**cGMP** a quality assurance system for the human and veterinary pharmaceutical industry, the cosmetics industry and the food industry.

**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.

**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 semiconduc-

tors). 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.

**Geofencing** the virtual delimitation of a geographic area or specific locations with Ctrack track & trace software.

**ICT (Information and Communication Technology)** integration between information technology, that is to say computers, and data and telecommunication. Indoor 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.

**Innovations TKH** at least 15% of revenues 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.

**LoRa (Long Range, Low Power) IoT** connection specially developed to exchange small amounts of information between objects and systems. One LoRa module can send data for more than 10 years on just 2 batteries.

**Narrowband IoT (NB-IoT)** a new standard for connecting IoT projects.

**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 center (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.

**Recyclate** collective name for all kinds of products that are the result of a completed recycling process and can be applied without further processing in a production process of semi-finished or finished products.

**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 fibre optic cable, intended to send measurement data to the connected systems.

**Sustainable Development Goals (SDGs)** In 2015, 193 countries committed to the Sustainable Development Goals of the United Nations (SDGs). These goals form an action plan for a sustainable world without poverty.

**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. Further information about the TKH core technologies -vision & security, mission critical communication, connectivity and smart manufacturing- can be found in the report of the Executive Board.

**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. Further information on the vertical growth markets of TKH -Fibre Optic Networks, Care, Tunnel & Infra, Parking, Marine & Offshore, Machine Vision and Tire Building Industry- can be found in the report of the Executive Board.

This is a summary of the Annual Report 2018.

The full Annual Report is available in Dutch and English and can be downloaded from the website of TKH: [www.tkhgroup.com](http://www.tkhgroup.com).

The Annual Report and summarized financial statements in English are a translation of the official Dutch version. In the event of differences and/or inconsistencies, the official Dutch Annual Report 2018 will take precedence.

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For actual information about TKH Group and our sustainability developments please visit our website: [www.tkhgroup.com](http://www.tkhgroup.com).

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