

Annual Report 2017



Smart Technologies <

Smart Technologies
the heart of
our innovations

Annual Report 2017

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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

Technology company TKH Group N.V. (TKH) is an internationally active group of companies, which is specialized in developing and supplying 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 to each other to create comprehensive systems and solutions in our three business segments. Within these business segments we focus closely on seven vertical growth markets -*Optical Fibre Networks, Care, Tunnel & Infra, Parking, Marine & Offshore, Machine Vision and Tire Building Industry*- in which our core technologies are positioned as a one-stop-shop for our customers. In this, we strive for far-reaching synergy and collaboration between our business units.

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. Through its companies, TKH is active throughout the world. Growth is concentrated in Europe, North America and Asia. In 2017 TKH achieved a turnover of € 1.5 billion with 5,900 employees (FTE).



MESSAGE FROM THE CEO

Building further on the foundation

TKH generated record turnover in 2017 thanks to a strong organic growth of 8.8%, which is realized in all three Solutions segments. The concentration on the seven vertical growth markets made an important contribution to this growth. We are well positioned with our total solutions and once again increased our market share in practically all of the growth markets. The continuing investment in R&D and the roll-out of new technologies in response to the latest trends, were also decisive factors in this success.



“TKH is steadily evolving into a ‘smart technology’ company, in which software is a decisive component of the solutions the group provides.”

Examples of these trends are robotics, industry 4.0 and the need for safety and efficiency. The defined 25 building blocks as important focus areas for generating higher turnover in the vertical growth markets, has tightened the focus of the organization and provides clear direction for its priorities in terms of investment and the development of the organization.

There is a lot of interest in the market for our stand-out technologies. Our desire to supply proven technologies in which we have complete confidence sometimes demands patience on the part of our organization and our customers, but also our shareholders. Some development programs have not yet started paying for themselves, but we are convinced that the investments and start-up costs for new technologies and expansion of production capacity that we incurred during the year under review will generate an increase in turnover and higher profits in 2018.

Through a tightening of our focus on our core technologies and improved returns, we create a perspective for accelerating the realization of the Return on Sales (ROS). Based on the good strategic progress and the related prospects, we have increased the bandwidth of the medium-term ROS target to 12-13%. We have phased out a number of less profitable activities and implemented programs to increase efficiency in a number of business units, particularly Building Solutions.

TKH is steadily evolving into a ‘smart technology’ company, in which software is a decisive component of the solutions the group provides. Interactive voice response (IVR) and artificial intelligence (AI) are just two of the software applications TKH has been integrating into its smart technologies. They are crucial for our product strategy and product development and are being integrated into the intelligent software we develop ourselves. In the supplement to this annual report, we explain these smart technologies in detail and describe how they make our technologies even smarter and more efficient.

Corporate Social Responsibility (CSR) is now fully integrated into our strategy and is therefore embedded in our organization and corporate culture. Our priorities in terms of CSR enable us to establish a distinct position in the market. We are increasingly working with our stakeholders to meet objectives for sustainability and so jointly make a social contribution. Last year we made a valuable addition to our CSR policy by analyzing how TKH can make a contribution to achieving the United Nations’ Sustainable Development Goals (SDGs) and discussing our ideas with stakeholders. You can also read more about those ideas in this annual report.

Distinguishing with innovations is what drives TKH’s growth and safeguards the company’s future. It is the fundament on which TKH will continue to be able to create value in the long-term. The growing appreciation of our strategy displayed by our shareholders is a further motivation to continue pursuing the course we are on with enthusiasm and passion.

Because of the growing economy and the associated increasing demand for raw materials, auxiliary materials and components, it is important to maintain the close cooperation with our suppliers in order to accomplish the agreements we make with our customers. Because of our many years of cooperation we were able to succeed.

We wish to thank our employees for the enormous effort, passion and dedication they have devoted to the further growth of TKH. We are grateful to our customers, business partners, Supervisory Board and the holders of (depository receipts of) shares for their trust and their support in enabling TKH to grow and to achieve its ambitions.

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

Highlights 2017

TURNOVER

Increase in turnover of 10.7% to € 1,484.5 million, organic growth of 8.8%, with above-average growth of 12.1% in vertical growth markets.

EBITA

Increase of 2.9% in EBITA before one-off expenses to € 150.8 million, despite high start-up costs and increase in capacity for planned growth in the vertical growth markets.

INNOVATIONS

High share of innovations in turnover of 22.2%.

R&D SPENDING

Increase in R&D spending of 19.1% to € 59.9 million in line with the objective to further increase the company's technological leadership.

ONE-OFF EXPENSES

One-off expenses of € 6.3 million in the full-year 2017 for focus on core activities and efficiency improvement program.

NET PROFIT

Increase of 2.4% in net profit before amortization and one-off income and expenses attributable to shareholders to € 96.6 million in line with previously communicated bandwidth of € 92 - € 97 million.

DIVIDEND

Dividend proposal: € 1.20 per (depository receipt for an) ordinary share (2016: € 1.10).

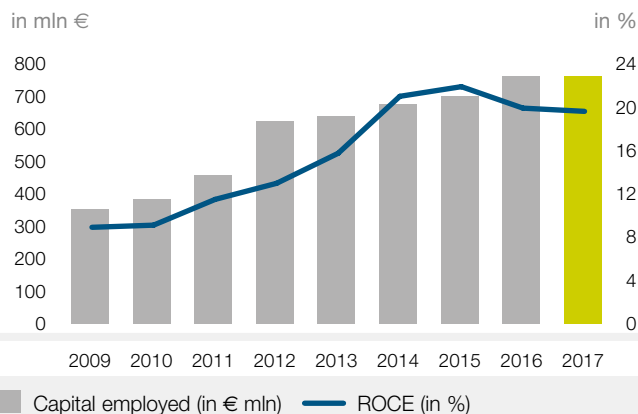
OUTLOOK

Investment year 2017 provides a solid base for realization of growth in profit from 2018 onwards.

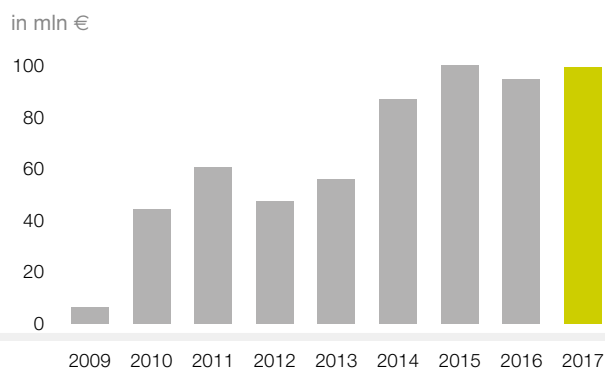
ROS / ROCE

Based on solid progress in realization of strategy, TKH has raised its medium-term targets: ROS from 11-12% to 12-13% and ROCE from 20-22% to 21-23%.

CAPITAL EMPLOYED AND ROCE

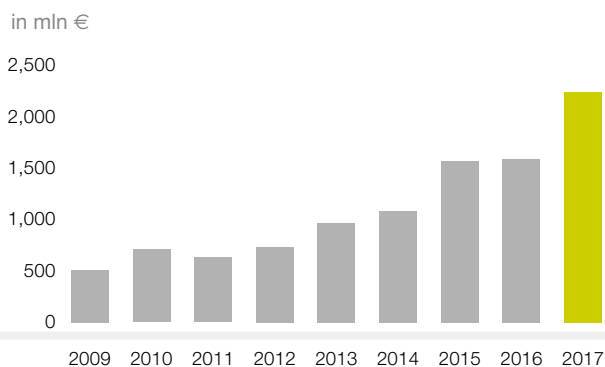


NET PROFIT *



* before amortization of intangible non-current assets related to acquisitions and one-off income and expenses (after tax) attributable to shareholders

MARKET CAPITALIZATION



KEY FIGURES

	2017	2016
Operations (In € million)		
Turnover	1,484	1,341
EBITA ¹	151	147
Net result	89	87
Net profit before amortization and one-off income and expenses attributable to shareholders ²	97	94
Cash flow from operating activities	160	104
Net investments ³	41	46
Depreciation of tangible non-current assets	24	23
Balance sheet (In € million)		
Group' equity ⁴	603	583
Liabilities	682	663
Non-current assets	657	656
Current assets	628	590
Ratios (In %)		
Group' equity/total assets	46.9	46.7
Group' equity/non-current assets	91.7	88.8
EBITA /turnover (ROS)	10.2	10.9
EBITA/average capital employed (ROCE)	19.8	20.1
Net debt/EBITDA	0.9	1.0
Net result before amortization and one-off income and expenses/turnover	6.6	7.2
Net result/group equity ⁴	16.2	16.5
Employees (In FTE)		
Number at year-end	5,900	5,509
In euros (unless otherwise stated)		
per ordinary share of € 0.25		
Shareholders' equity ⁵	14.33	13.82
Net result ⁶	2.08	2.04
Net profit before amortization and one-off income and expenses attributable to shareholders ^{2 6}	2.30	2.25
Cash flow from operating activities	3.80	2.47
Dividend	1.20	1.10
Highest share price during year under review	58.68	38.14
Lowest share price during year under review	36.45	28.47
Share price at year-end	52.93	37.59
Ordinary shares outstanding at year-end (x 1,000)	42,045	42,161

¹ EBITA before one-off income and expenses.

² Amortization of intangible non-current assets related to acquisitions (after tax).

³ In tangible non-current assets.

⁴ Including non-controlling interests.

⁵ Based on outstanding ordinary shares held by third parties at 31 December.






⁶ Based on weighted average number of outstanding shares at third parties.

TKH organization

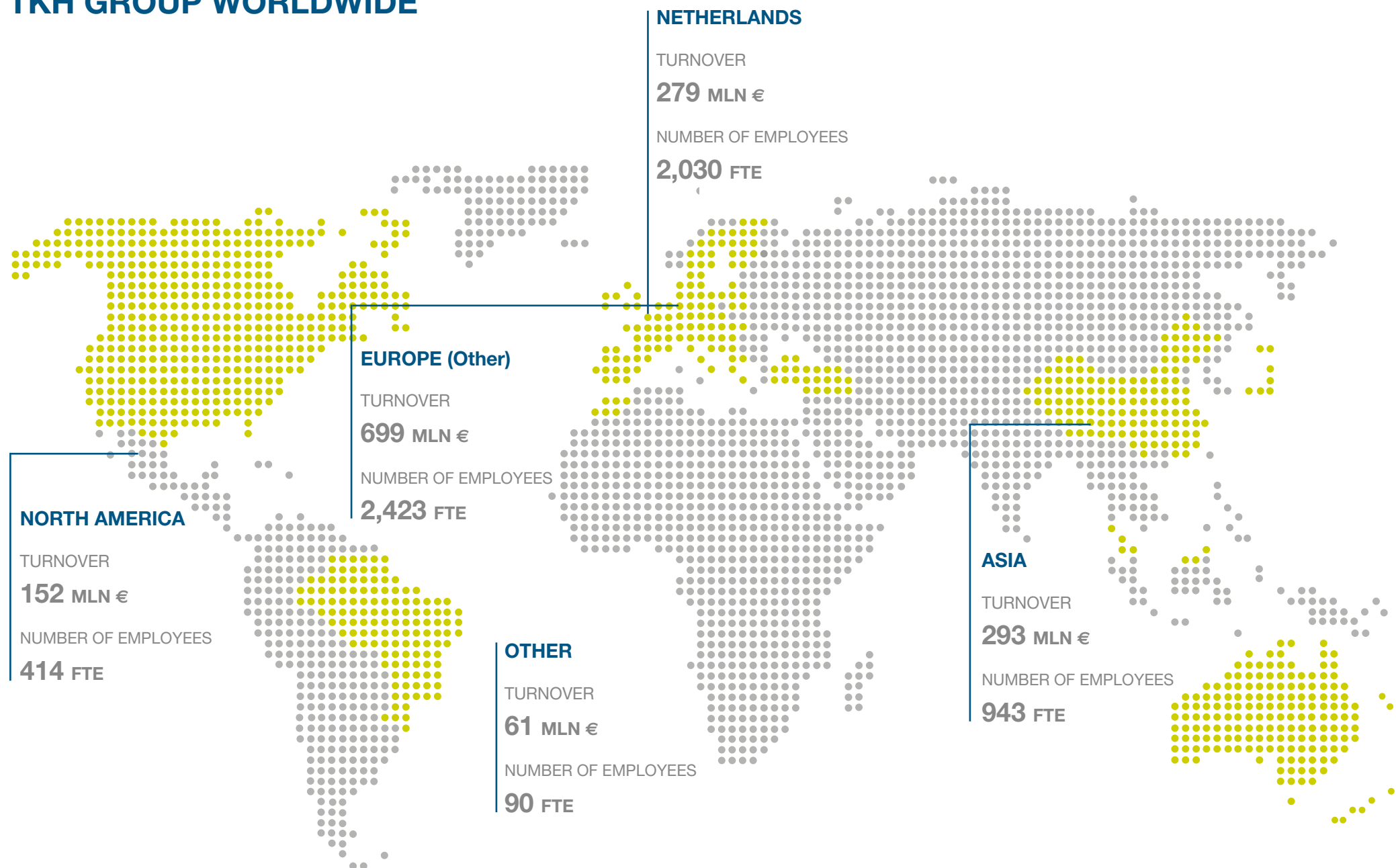
TKH has a decentralized organizational structure, focused on the business segments Telecom, Building and Industrial Solutions. This organizational structure makes TKH flexible so that it can quickly and alertly respond to market opportunities and customer wishes.

Short lines of communication, delegated authority and entrepreneurship are characteristic of the working method used within TKH. For the subsidiaries, this structure promotes internal synergy and knowledge and experience within the group are optimally exchanged so that market opportunities can be better utilized. Capacities in the field of R&D, engineering, marketing, process development, project management, production, logistics and assembly are shared within the three business segments.

TKH CORE VALUES

-  **RELIABLE AND RESPONSIBLE**
-  **RESPECTFUL AND COOPERATIVE**
-  **ADHERENCE TO THE HIGHEST STANDARDS OF ETHICS AND INTEGRITY**
-  **EXCELLENCE IN EVERYTHING WE DO**
-  **MAKE A CLEAR CONTRIBUTION TO A SUSTAINABLE WORLD**

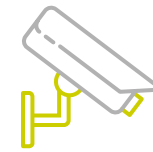
TKH GROUP WORLDWIDE



4 core technologies

The four TKH core technologies -*vision & security, mission critical communication, connectivity and smart manufacturing*- are linked to each other to create comprehensive 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 and to be able to offer technology with a high innovative content. 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.

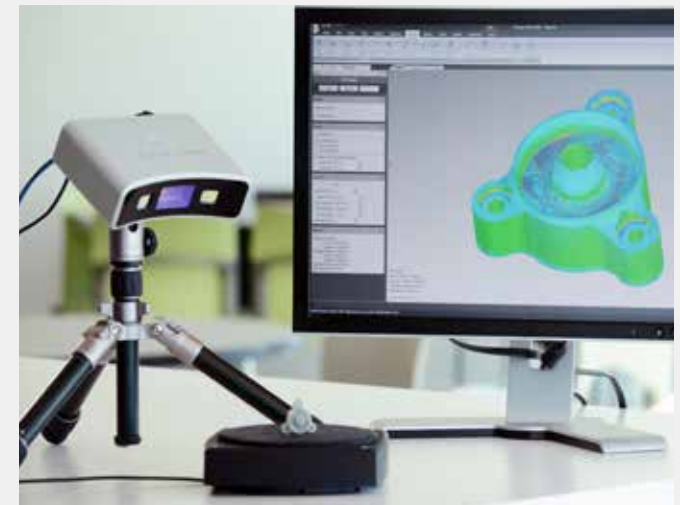


VISION & SECURITY

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 construction, 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 alarms and mission critical communication systems, access, registration and evacuation 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 electrotechnical applications in the construction and infra sectors, as well as 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 manufacturing, 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 *-vision & security, mission critical communication, connectivity and smart manufacturing-* are linked to each other to total systems in our three business segments. Within those business segments we focus mainly on seven defined vertical growth markets in which our specialist knowledge and expertise can be put to even better use and it is possible to achieve above-average growth and profit.

FACTS & FIGURES

TELECOM SOLUTIONS

TURNOVER



191.5 MLN €

ROS



13.5 %

BUILDING SOLUTIONS

TURNOVER



635.5 MLN €

ROS



8.1 %

INDUSTRIAL SOLUTIONS

TURNOVER



657.5 MLN €

ROS



13.6 %

TELECOM SOLUTIONS

Telecom Solutions develops, produces and supplies systems for basic outdoor infrastructure for telecommunications and CATV networks up to and including indoor home networking applications. The focus is on supplying systems accompanied by warranties that relieve our customers from any concern. Roughly 40% of this portfolio consists of optical fibre and copper cable for hub-to-hub connections. The other 60%, predominantly comprising components and systems relating to connectivity and peripherals, is mainly used in the 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

Industrial Solutions develops, produces and supplies solutions ranging from speciality cable and plug-and-play cable systems to integrated systems for the manufacturing of tires for car and trucks. With its expertise in the field of the automation of production processes and improving the reliability of production systems, TKH stands out in its ability to respond to the growing wishes of a number of specialist industrial sectors, such as the tire manufacturing, robotics, medical and machine building industries, to outsource the construction of manufacturing systems or modules to a growing extent.

SUB-SEGMENTS INDUSTRIAL SOLUTIONS

- Connectivity systems
- Manufacturing systems



7 vertical growth markets

TKH focuses on seven defined vertical growth markets: Fibre Optic Networks, Care, Tunnel & Infra, Parking, Marine & Offshore, Machine Vision and Tire Building Industry.

These are markets in which we can achieve above-average growth driven by trends that call for high-priority investments in TKH core technologies.

Thanks to close contact with our customers, we know these markets well, we are familiar with what is at stake in them 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 growth of € 300 million to € 500 million in our seven vertical growth markets.



FIBRE OPTIC NETWORKS

TKH develops, produces and supplies comprehensive optical fibre 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. Where 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 outpatient and inpatient care. Security and alarms can be individually geared to the customer or resident's health care needs. TKH also supplies comprehensive 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.



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.



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 the robotics, mechanical engineering, consumer electronics, medical and automotive industries.



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 and advanced connectivity technology for contactless energy and data distribution. Our solutions satisfy strict safety requirements making it possible to open tunnels, roads and runways safely and punctually.



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.



TIRE BUILDING INDUSTRY

With decades of experience, TKH has developed and refined the manufacturing technology for the construction of tires 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 properties in a highly efficient way.

Long-term value creation

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

By integrating these technologies effectively, we create unique, innovative, total systems that are suitable for multiple markets. By adding specific application know-how, we have become the specialist in our defined seven vertical growth markets and offer tailor-made solutions, but also, using standard technology platforms, the best possible solutions in terms of Return on Investment (ROI) and efficiency. The engagement and contribution of all of our employees play a decisive role in our value creation model. This model stimulates entrepreneurship and talent development within our group and motivates us to constantly improve our (long-term) value creation. In order to show how value is created in TKH Group, we use the value creation model of the IIRC (International Integrated Reporting Council). This model provides insight into the relationships and capital that we use in carrying out our business activities. We explain which resources (financial, produced, human, intellectual, natural, social & relationships) we use to achieve our strategic objectives and which values we add with our core business.



STRATEGY MODEL TKH GROUP

VALUE CREATION

4 CORE TECHNOLOGIES

VISION & SECURITY



MISSION CRITICAL
COMMUNICATION



CONNECTIVITY



SMART MANUFACTURING



INNOVATIONS >15%

3 BUSINESS SEGMENTS

TELECOM SOLUTIONS

BUILDING SOLUTIONS

INDUSTRIAL SOLUTIONS

GROWTH DRIVERS

Efficiency - Comfort - Safety - Security

7 VERTICAL GROWTH MARKETS

FIBRE OPTIC
NETWORKS



CARE



TUNNEL &
INFRA



PARKING



MARINE &
OFFSHORE



MACHINE
VISION



TIRE BUILDING
INDUSTRY



MISSION STATEMENT

TKH aims to be a leading innovative technology niche player that through combinations of its four core technologies, offers comprehensive solutions 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, central to which is a manner of doing business that reflects its corporate social responsibility.

VALUE CREATION MODEL

INPUT



FINANCIAL
Finance position



PRODUCED
In-house and outsourced manufacturing



HUMAN
Employees and other strategic stakeholders



INTELLECTUAL
Intellectual property/R&D



NATURAL
Use of resources and dealing with general environmental values



SOCIAL & RELATIONS
Networking and partnerships

VALUE CREATION

GOVERNANCE

MARKET SUCCESS BASED ON STRATEGIC PRINCIPLES:

- Innovations with a high return on investment for our customers.
- Technologies focused on efficiency, safety and reliable processes.
- Seven vertical growth markets where the core technologies are positioned as a one-stop-shop for our customers.

CORE VALUES AS A GUIDELINE FOR OUR ACTIONS:

- Reliable and responsible
- Respectful and cooperative
- Ethics and integrity
- Excellence
- Sustainability

BUSINESS-MODEL

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

CORE TECHNOLOGIES

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

SOLUTIONS

- Telecom Solutions
- Building Solutions
- Industrial Solutions

VERTICAL GROWTH MARKETS

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

OUTPUT

FINANCIAL
Impact investments, dividends, taxes

PRODUCED
High-quality technologically advanced total systems

HUMAN
Healthy, safe environments, development opportunities

INTELLECTUAL
Innovations, patents

NATURAL
Sustainable use of energy and raw materials, sustainable environment

SOCIAL & RELATIONS
Committed and social company, supply chain initiatives and stakeholders meetings

OUTCOME

SDGs

FINANCIAL

ROS:

10.2%

ROCE:

19.8%

Market capitalization:

€ 2.2
billion

Net profit per share:

€ 2.08

Debt leverage ratio:

0.9

Dividend pay-out ratio:

57.0%
of net profit



PRODUCED

Turnover:

€ 1.5
billion

Energy consumption in KWh: Energy consumption in CO₂: Certification

102
million

39
million

iso14001
all production companies



HUMAN

Number of education hours:

22
per FTE

Code of conduct:

98%
signed

Employee satisfaction:

7.2

Absenteeism:

3.35%

Staff costs:

€ 353.1
million



INTELLECTUAL

Innovations:

22.2%

R&D spending:

€ 59.9
million

Subsidies and tax savings through R&D:

€ 5.7
million



NATURAL

Energy consumption:

-3.3%
compared to 2016

CO₂ emission:

-2.8%
compared to 2016

% Waste

5%
of material consumption

Recycling:

71.4%



SOCIAL & RELATIONS

Customer satisfaction:

7.9

Code of supply

80%
signed

Settling complaints:

12.9%
Improvement compared
to 2016

Community investments:

0.4%
of net profit



Trends & developments

Global trends determine market demand and consequently our customers' requirements. They are important drivers for the achievement of growth in the medium- and long-term, with the aid of which value is created and retained for our stakeholders.

ECONOMIC

- There is a trend towards greater globalization in the value chain.
- The Asian countries are gaining in economic importance as a result of a growing population and rising prosperity.
- There is a lack of clarity concerning the extent of the economic impact of persistent division within the European Union.

PRODUCED

- There is a growing demand for efficiency and the ability to provide integrated total solutions.
- Product life-cycles are becoming ever shorter, which necessitates quicker innovation in order to retain or improve the competitive position.
- Products are becoming increasingly more personalized. As a result, production runs are becoming ever smaller and allowances are already made for this during the engineering stage to make it possible to manufacture products in modular form.
- The prices of raw materials are increasingly more volatile. By ensuring that raw materials are renewable and goods are recycled, raw materials can be used more efficiently and waste flows reduced.

INTELLECTUAL

- There is a continuous demand for carefully designed, effectively controlled network connections and fast wireless networks -the need to safeguard privacy as far as possible- increase in the threat of cybercrime.
- Robotization and 'smart factories' with intelligent, efficient, zero-defect processes and new product technologies are emerging.
- Vision technology to ensure efficient and precise manufacturing process, as a result of which machines are capable of learning and managing themselves.
- Through digital technologies, to remote performance of maintenance on machines and the virtual training of engineers.

SOCIAL AND HUMAN

- The age structure and nature of the workforce is changing, leading to an increase in chronic and life-style-related diseases.
- The accelerated growth of the urban population is placing demands on the infrastructure and is generating a demand for the provision of services in relation to care, energy, safety and also mobility.

- Important expertise is flowing out of companies due to an ageing population and there is a shortage of well-trained technical staff.
- Collaboration between companies and educational institutions is becoming more urgent, as too is the need for companies to train their own people.
- Work and private life are becoming integrated into new lifestyles and this demands that companies follow suit.
- Society is making growing demands on business to make a greater social effort.

SUSTAINABILITY / NATURAL

- Resources are being exhausted due to extensive consumption of raw materials.
- The global demand for energy continues to grow, as stocks of fossil fuels become scarcer, so there should be an increase in the generation of sustainable energy, such as wind energy.
- There is a worldwide demand to reduce CO₂ emissions.
- Collaboration is growing throughout the supply chain in order to deal with issues of sustainability.

SWOT ANALYSIS

STRENGTHS

- Innovative core technologies which can be combined to total systems - including engineering, service and maintenance and thus have distinctive character compared to competitors.
- An efficient R&D organization and extensive R&D investments in combination with protection of technology and intellectual property rights by means of patents.
- Strong (niche)positions in defined vertical growth markets thanks to distinctive technology and innovations.
- Customer-specific solutions in defined vertical growth markets by distinctive technology and many innovations.
- Benefits of economies of scale by spreading technologies over multiple product and market combinations and geographical markets.
- Good reputation and financial strength.
- High flexible production capacity thanks to outsourcing more than 70% of capital intensive manufacturing.
- Successful acquisition policy and sound integration of acquired companies within the organisation.
- An organisational model with local entrepreneurship and innovative capacity.
- Quality and involvement of staff.

OPPORTUNITIES

- Demand for technologically high quality solutions towards efficiency, safety and comfort.
- Customers have a tendency to outsource technology.
- Emergence of Internet of Things and Industry 4.0 – trend towards robotization presents opportunities for vision technology.
- Above-average growth potential in defined vertical growth markets in terms of both geography and market share.
- Extension of the software part of solutions and service components.
- Interesting employer thanks to profiling entrepreneurship and development potential.
- Growing incorporation of corporate social responsibility in the organization and activities.

WEAKNESSES

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

THREATS

- The worldwide geopolitical situation.
- Speed of technological developments – new technologies offering better prospects than TKH's technologies.
- Harmonization of niche specifications to produce standard commodity solutions.
- Scarcity of properly qualified, technical specialists.
- Shortage of raw materials and fluctuating raw material prices and foreign exchange rates.
- Risk of cybercrime.

The following applies for the purposes of translating this SWOT analysis:

- To use our financial power for further investments in technological developments to enable us to achieve organic growth in market segments offering a wealth of opportunities.
- To use our innovative core technologies to ensure an optimum response to trends.
- TKH can exploit its position, economies of scale and innovations to benefit from the potential for boosting its market share.
- Striving for a continuous technological advantage, based on in-depth analysis of possibilities and environmental analysis in combination with the facilitation of financial space to be able to sufficiently invest in R&D.
- Spreading its operations over multiple product and market combinations, and focusing on vertical growth markets will make TKH less dependent on government measures.
- To use the fine reputation as an attractive employer to recruit and retain talented employees.
- To boost the global position by extending the presence in a number of international markets on the basis of defined vertical growth markets.
- Improving brand familiarity through an increase in reference projects in markets in which our brand familiarity is limited and by aiming for intensive market positioning.

Growth drivers

TKH focuses on seven defined vertical growth markets in which an above-average growth and return can be realized because of the trends and growth drivers that lead to a high priority for investments in our core technologies.



FIBRE OPTIC NETWORKS

- Growing data usage due to the influence of information and communication technology on our daily lives - increasing need for bandwidth.
- Internet has now become a utility, just like gas, water and electricity.
- Developments such as the Internet of Things, Industry 4.0 and the Internet of Vehicles will demand high-speed internet (mobile and otherwise) - the emergence of 5G networks.
- 24-hour accessibility is becoming increasingly widespread and accepted.

GROWTH SCENARIOS TURNOVER VERTICAL GROWTH MARKETS

In million of euros	2012	2016	2017	Bandwidth growth scenarios	
Fibre Optic Networks	80	109	127	175	200
Care	30	43	52	70	100
Tunnel & Infra	30	43	48	100	150
Parking	20	55	47	75	100
Marine & Offshore	20	53	58	100	125
Machine Vision	95	111	127	250	300
Tire Building Industry	175	259	297	450	550
Total	450	674	756	1,220	1,525



CARE

- Life expectancy is increasing and health care spending is rising sharply due to more and better, but also more expensive health care. The demand for technological care solutions is increasing: domotics, diagnostics, e-health and self-testing for prevention and screening.
- Shortage of skilled workers. Informal carers are equal partners to care professionals. Technological support for the requisite exchange of information.
- The demand for medication (volume) is increasing while health care costs have to be reduced.
- Increase in economies of scale per pharmacy (more patients and prescriptions).
- The centralised preparation of medicines at an external location - the acceptance of robotization in the pharmaceutical wholesale sector.



PARKING

- Income from parking garages is under pressure due to reduced inbound and outbound traffic flows - a need to reduce operating expenses.
- There is a demand for the supply of a visual dashboard containing parking information - managers and car park operators will be able to respond more quickly and efficiently to current situations.
- Increased utilization of capacity and income thanks to differentiated parking fees.
- Call for greater comfort for parking attendants.
- Thanks to technology, more data is available which may be used to improve efficiency, safety, access and payment options.
- The emergence of frictionless parking can be realized with technological solutions.



MACHINE VISION

- The demand for vision technology is on the rise thanks to a more pronounced industrial automation and robotization trend (Industry 4.0).
- Demand for increased productivity and the superior quality of manufactured products.
- Vision technology is a superior alternative for the inspection of manufacturing systems and for the detection, inspection and identification of anything which the human eye is incapable of seeing.
- A sharp increase in the number of applications in which vision technology will be used.
- Because of strict regulations governing the quality of foodstuffs and medicines, vision technology offers a solution to provide full traceability and serve as a fail-pass module.



TUNNEL & INFRA

- High priority to make airports safer, increase the availability of airport infrastructure and enable faster handling of flight movements.
- Extensive investments in tunnel technology for new and existing tunnels in Europe in the years ahead.
- Due to strict security legislation and regulations ever increasing demands are made of technical equipment.
- Growing demand for technologies in order to comply with strict requirements: evacuation - communication - detection - identification - safety.
- Contracting authorities are shifting responsibility to contractors.
- The availability of infrastructure - tunnels, airports and roads - is becoming more widespread because of advanced technologies which require less.



MARINE & OFFSHORE

- A large increase in power generated by wind energy.
- Demand for ever larger freighters and a need for efficient external site management.
- An increase in the construction of superior quality vessels, cruise ships and luxury yachts.
- A lot of attention devoted to safety on platforms through special zone certification.
- Variation of the 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.



TIRE BUILDING INDUSTRY

- High priority for the tire building industry to replace existing technology with the emphasis on high productivity, efficiency, the reduction of waste, improved quality and smaller batches.
- A sharp increase in the number of types of tires for passenger vehicles - demands more flexible manufacturing methods.
- The trend towards ever larger tire dimensions and towards safer, better quality tires is leading to a demand for technological development.
- A reduction of working capital requirements in the tire construction industry supply chain.
- More than 70% of the existing tire construction systems is older than 15 years.
- 'Eyes and hands off' manufacturing: systems offering greater productivity and operator independence.

Strategy & objectives

TKH's strategy is focussing towards 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 on how we implement the strategic process.

OBJECTIVES

INNOVATIONS

 **> 15 %**

ACQUISITIONS

 **1-3** PER YEAR

NET DEBT / EBITDA

 **< 2.0**

TURNOVER GROWTH

 **300-500** MLN €
in vertical growth markets

ROS

 **12-13 %**
medium-term objective from 2018

ROCE

 **21-23 %**
medium-term objective from 2018

CORE TECHNOLOGIES & INNOVATIONS

Constant attention to innovation produces an advanced range of products and services that guarantee technologically advanced solutions. With our four core technologies -*vision & security, mission critical communication, connectivity and smart manufacturing*- we can respond to these growth trends and can offer innovative comprehensive 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.

GROWTH & ECONOMIES OF SCALE

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

FINANCIAL STRENGTH

As part of TKH's strategy we avail ourselves of opportunities for targeted growth and limit our (financial) risks. Healthy balance sheet ratios and a strong operating cash flow enjoy top priority in the development of our 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 higher 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 between 12% and 13%. In the case of ROCE our medium-term target is a bandwidth of between 21 and 23%. To ensure an optimal 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 in the TKH strategy so that in implementing our strategy and achieving the objectives we take into account our social responsibilities. We take into account the effect of our activities and business operations on four parts: People, Planet, Profit and Positioning, focusing on the social side of business, attention to the environment and climate, the economic side of business and safeguarding of integrity and good reputation.

BUILDING BLOCKS VERTICAL GROWTH MARKETS

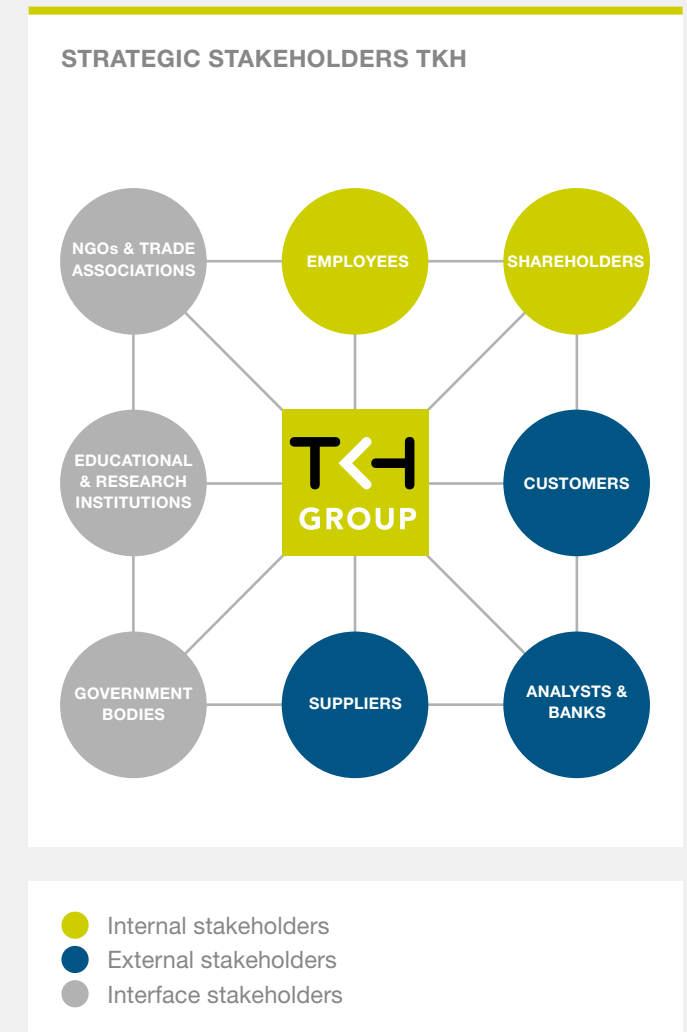
TKH has defined seven vertical growth markets where it expects above-average growth because of trends that lead to a high priority for investment in TKH's core technologies. To be able to achieve this growth, we have defined action plans on the basis of 25 building blocks. It gives us a clear strategic focus and gives us guidance regarding investment plans and the roll-out of market opportunities.

FIBRE OPTIC NETWORKS	CARE	TUNNEL & INFRA	PARKING	MARINE & OFFSHORE	MACHINE VISION	TIRE BUILDING INDUSTRY
MARKET SHARE GROWTH FRANCE / GERMANY / NORDICS / POLAND	INTERNATIONALIZATION HOMECARE & COMMUNITY PLATFORM	AIRFIELD GROUND LIGHTING TECHNOLOGY BASED ON CEDD TECHNOLOGY	DIFFERENTIATION VIA SMART-SENSOR / CCTV TO FRICTIONLESS PARKING	CONNECTIVITY SOLUTIONS FOR SUBSEA	HIGH MARKET GROWTH 2D INSPECTION IN COMBINATION WITH INNOVATIONS	MARKET SHARE GROWTH WITHIN TOP-5 TIRE MANUFACTURERS
ROBOT SOLUTIONS FOR PATCHING	INTERNATIONALIZATION OF INTEGRATED VISION & SECURITY SOLUTIONS FOR HOSPITALS	INTERNATIONALIZATION OF INTEGRATED VISION & SECURITY SOLUTIONS FOR TUNNELS	INTERNATIONALIZATION OF INTEGRATED VISION & SECURITY SOLUTIONS FOR PARKING GARAGES	INTERNATIONALIZATION OF INTEGRATED VISION & SECURITY SOLUTIONS	HIGH MARKET GROWTH 3D INSPECTION IN COMBINATION WITH INNOVATIONS	MARKET SHARE GROWTH TIRE COMPONENT PREPARATION, TRUCK TIRES & LIGHT TRUCK TIRE MANUFACTURING
SMART SECURITY SOLUTIONS FOR POPs	BLISTERING TECHNOLOGY FOR PHARMACY - INDIVION	MARKET SHARE GROWTH BENELUX / NORDICS	MARKET GROWTH AND POSITIONING NORTH AMERICA / EUROPE / AUSTRALIA / MIDDLE EAST	INTERNATIONALIZATION OF CONNECTIVITY SOLUTIONS	MARKET SHARE GROWTH NORTH AMERICA / EUROPE / ASIA	NEW TIRE BUILDING PLATFORM UNIXX & MILEXX
	DISPENSER TECHNOLOGY FOR MEDICINES			SPECIAL PORTFOLIO MISSION CRITICAL COMMUNICATION	MEDICAL AND TIRE BUILDING INSPECTION SYSTEMS	INCREASE SHARE IN TURNOVER SERVICE & SPARE PARTS BUSINESS

Stakeholders

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

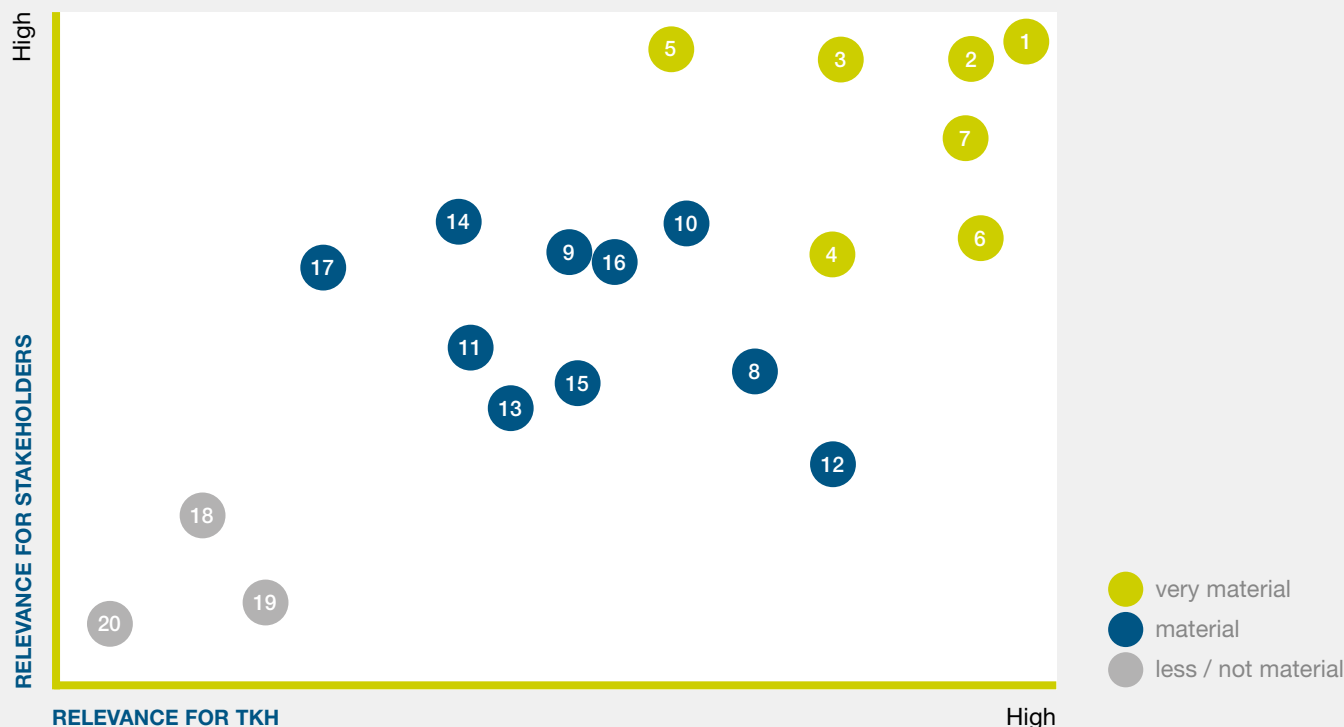
In the context of our business operations and based on our position in the supply chain, we are in regular dialogue with our stakeholders. This allows us to share and check our vision, our strategy and our expectations with them, with a view to further tighten up these aspects in our business operations.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



STAKEHOLDERS DIALOGUE

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

MATERIALITY MATRIX



- 1 Financial targets
- 2 Code of conduct
- 3 Innovation/technologies
- 4 Education and trainings
- 5 Sustainable procurement
- 6 Good employership
- 7 Health and safety
- 8 Complaints mechanisms
- 9 Sustainable customer and product portfolio
- 10 CO₂ emissions and energy reduction
- 11 Good causes
- 12 Raw materials consumption & waste reduction
- 13 Human rights
- 14 Diversity in the workforce
- 15 Initiatives in the chain
- 16 Local presence
- 17 Privacy
- 18 Public policy
- 19 Water
- 20 Biodiversity

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 as 'less / not material'. 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 civil society organizations such as VBDO, VEB and Eumedion.
- Global Reporting Initiative (GRI) guidelines.
- Sustainability rating agencies such as CDP, Vigeo.
- International guidelines such as those issued by the OECD and SDG.
- Peer reporting.
- Media analyses.

TKH shares

TKH's shares are listed on 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

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 1 to 9 months. Each option represents 100 TKH shares.

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 for those 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 authorisation 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.
- Priority shares are managed by the foundation, Stichting Prioriteit, which comprises the company's Executive 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.

On balance at the end of 2017 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 of shares have been issued for 42,664,714 and 4,000 are priority shares with a nominal value of € 1.00. At the end of 2017 the company held 776,831 (depositary receipts of) ordinary 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 Report of the Executive Board by means of a reference.

All of the dividends for 2017 were issued to the holders of (depositary receipts of) ordinary shares in cash. Optional dividends between stock and cash were issued in 2016.

The movements in the number of (depository receipts of) ordinary shares are presented in the table below.

CHANGES IN NUMBER OF (DEPOSITARY RECEIPTS OF) ORDINARY SHARES

	2017	2016
Number of ordinary shares on issue as at 1 January	42,821,763	42,413,514
Stock dividends	-	408,249
Number of ordinary shares on issue as at the end of the financial year	42,821,763	42,821,763
Number of shares held by the company at the end of the financial year	776,831	660,575
Number of outstanding shares held by other parties at end of the financial year	42,044,932	42,161,188

The following key figures per (depository receipts of) ordinary shares apply in relation to the listing on Euronext Amsterdam.

KEY FIGURES PER (DEPOSITARY RECEIPTS OF) ORDINARY SHARES

	2017	2016
Annual turnover of shares	27,659,880	22,255,564
Highest price	€ 58.68	€ 38.14
Lowest price	€ 36.45	€ 28.47
Closing price	€ 52.93	€ 37.59
Net earnings per share	€ 2.08	€ 2.04
Dividend	€ 1.20	€ 1.10
Price-earnings ratio as at the end of the financial year	25.5	18.5
Dividend yield on closing price	2.3%	2.9%
Market capitalization at end of financial year (in € millions)	2,225.7	1,584.8

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 register maintained by the AFM in accordance with the Disclosure of Financial Supervision Act (Wet op het financieel toezicht; Wft), the following investors hold an interest of 3% or more in TKH. The table below is based on disclosures up to and including 5 March 2018.

DISCLOSURE OF OWNERSHIP AND EQUITY INTERESTS

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
AXA Investment Managers S.A.	3.00%	19-10-2017
BlackRock Inc	3.13%	03-01-2017
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
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 authorised capital which have not yet been issued. During the General Meeting held on 3 May 2017 this power was extended until 3 November 2018. 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.

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 shares in its own capital (or depository receipts for same) 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 2017 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.

EMPLOYEE OPTION RIGHTS 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

1-on-1 discussions. All publications, presentations, meetings, other announcements (non-financial or otherwise), appointments 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, the website and through financial reporting, we strive for transparent reporting.

INVESTOR RELATIONS

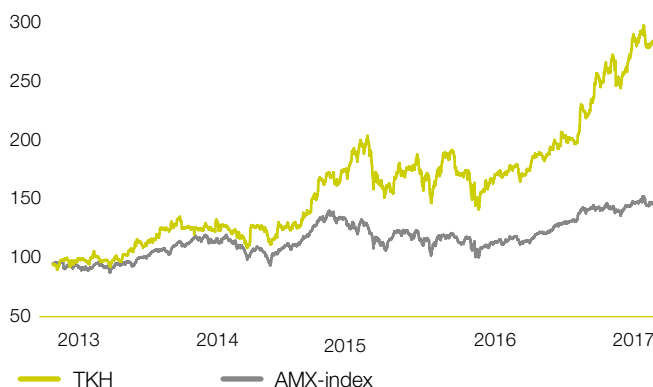
J.M.A. van der Lof MBA, *chairman of the Executive Board*

More information is available about TKH and its operating companies on its website at www.tkhgroup.com or through the company secretary, Mrs. R. Dieperink MBA.

FINANCIAL CALENDAR

2 May 2018	Trading update Q1 2018
3 May 2018	Annual General Meeting of Shareholders
7 May 2018	Listing of ex-dividend
8 May 2018	Record date
14 May 2018	Dividend payment
14 August 2018	Publication interim results 2018
1 November 2018	Trading update Q3 2018

PRICE INDEX TKH / AMX index



TKH and the Sustainable Development Goals

In 2015, 193 countries committed to the Sustainable Development Goals (SDGs) of the United Nations. These goals form an action plan for a sustainable world without poverty. This action plan will gradually lead to change through new ways of co-operation and collective actions.



TKH recognises the relevance of the SDGs and the role that the business community must play in order to achieve results. We have made an inventory of those SDGs on which we have the greatest impact, so that we can contribute directly to this. To do this, we compared the SDGs with our business operations and core activities, and looked at our entire process of value creation. The starting point was the materiality matrix. We also discussed the results of the first analysis with our stakeholders.

We finally arrived at the following 'high-impact' SDGs.



- **SDG 7:**

- SUSTAINABLE AND AFFORDABLE ENERGY**

- In its daily operations, TKH continuously pays attention to reducing its energy consumption and CO₂ emissions. We have been working on reducing our energy consumption and CO₂ emissions for over 10 years and are responding to 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 CO₂-neutral lighting systems.

- **SDG 8:**

- DECENT JOBS AND ECONOMIC GROWTH**

- TKH strives to provide its employees with a safe and inspiring work environment. We offer employees training and education that enables them to operate effectively and to further develop skills. Good primary and secondary employment conditions are obvious. We also provide employment for people with a disadvantage on the labour market. We contribute to increased productivity that stimulates the economy in both our operations, and our activities and technological solutions.

- **SDG 9:**

- INNOVATION AND SUSTAINABLE INFRASTRUCTURE**

- Our technologies and solutions make it possible to build a sustainable infrastructure that meets high safety requirements and efficiency. Examples include technologies for tunnel infrastructure and airfields, as

well as digital infrastructure through our innovative fibre optic cable systems. TKH has identified innovation as a strategic priority for further growth. This SDG touches on the core business of TKH.

• SDG 12:

SUSTAINABLE CONSUMPTION AND PRODUCTION

TKH's environmental policy aims at the continuous improvement of environmental performance, in which TKH has targets regarding waste reduction and recycling. All production companies are certified for the ISO 14001 environmental management system and work according to the LEAN principle to prevent waste. In the design phase, TKH selects its raw materials and other materials so that they do not have any adverse effects on the environment. TKH discusses sustainability with suppliers through its code of supply. TKH's technologies and total solutions help our customers to act sustainably, through such things as our tire building systems and vision technology for inspection and quality control. In addition, our technological solutions help other companies to produce responsibly and efficiently. By doing this, we are contributing to a circular economy.

By linking the SDGs to our materiality matrix and material themes, objectives have already been formulated that also affect the SDGs and underlying targets. In this way, TKH guarantees that structural attention is paid to the most relevant SDGs. We will also emphasise the link between the material themes and the SDGs in our communication in order to draw attention to the SDGs.

RELEVANT SDGs FOR TKH

MATERIAL THEMES OF TKH

- Sustainable customer and products portfolio
- Innovation
- Energy and CO₂ reduction



- Target 7.2. Raise share of renewable energy in the global energy mix
- Target 7.3. Double speed of improvement in energy efficiency

- Innovation
- Attractive employer
- Financial targets
- Socially responsible purchasing
- Sustainable customer and products portfolio



- Target 8.2. More economic productivity through diversification, technological modernisation and innovation
- Target 8.5. Full, productive and decently remunerated work for all women and men, also for young people and people with a disability, as well as equal remuneration for work of equal worth

- Innovation
- Sustainable customer and products portfolio



- Target 9.1. Develop a high-quality, reliable, sustainable and resilient infrastructure including regional and cross-border infrastructure
- Target 9.4. Modernise infrastructure and modify industries to make them sustainable, focusing on greater effectiveness in the use of resources and of cleaner and more environmentally-friendly technologies and industrial processes

- Sustainable customer and products portfolio
- Innovation
- CO₂ emissions
- Energy reduction
- Raw materials use and waste reduction
- Socially responsible purchasing



- Target 12.2. Achieve the sustainable management and efficient use of natural resources
- Target 12.5. Considerably limit waste production through prevention, reduction, recycling and re-use

KPI'S OF TKH

- >15% innovations
- 5% energy reduction in 2020 (compared with 2015)
- 2.5% CO₂ reduction in 2020 (compared with 2015)
- Leased vehicle fleet <95 g/km in 2020

- Devote 16 hours a year per FTE to education and training
- Zero industrial accidents
- Maintain and/or increase number of employees with a disability or a disadvantage on the labour market

- >15% innovations
- Sustainable product portfolio

- >15% innovations
- 5% energy reduction in 2020 (compared with 2015)
- 2.5% CO₂ reduction in 2020 (compared with 2015)
- Leased vehicle fleet <95 g/km in 2020
- 5% reduction in waste from relevant raw materials
- >50% recycling of waste

STAKEHOLDER DIALOGUE ON SDGs

In the year under review a stakeholder dialogue was organized that was dominated by the 'Sustainable Development Goals' (SDGs). Present were suppliers, customers, banks, analysts, NGOs, managing directors and employee representatives. The day was supervised by an external expert.

In the dialogue, the analysis of the SDGs in relation to the TKH situation was explained and the results were discussed. The SDGs on which TKH can exert the greatest impact have been explained and stakeholders have been invited to give their views on this choice but also to give their input to the other SDGs that emerged from the analysis as targets with a lower impact or as not material.

The results are shown in the table on the right with the (re)action of TKH.

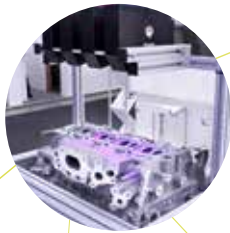
INPUT STAKEHOLDERS	(RE)ACTION TKH
Stakeholders recognize that TKH can make the biggest impact on SDG 8, 9 and 12 and can agree with the chosen underlying targets.	The SDGs concerned have been named as targets on which TKH can make the biggest impact.
Stakeholders see SDG 7 (Sustainable and Affordable Energy) as a SDG on which TKH can also make a major impact. This is partly due to the technological solutions that help customers to organize their processes more efficiently and to reduce energy consumption. Collaboration in the chain can make an extra contribution in this.	The SDG concerned has been added as a target on which TKH can make the biggest impact.
Several stakeholders underline that in the coming years, customers will increasingly be asked for solutions that also contribute to better environmental and efficiency performance.	TKH actively participates in chain initiatives and will explore the extent to which it should be expanded in accordance with the SDG objectives set.
Stakeholders questioned the relevance of SDG 4 (Good Education) because technical staff is scarce. Training this could therefore be a focus area.	This SDG supervises the training of people as a core activity in order to contribute to society. TKH develops initiatives with regard to training and education of (future) employees, mostly through partnerships with training institutions and universities. We provide our contribution to good education but have not named this SDG as a 'high-impact', as it is a defined area for which training courses are organized.
It is emphasized that for SDG 17 'Partnerships for the SDGs', this Goal can be used by TKH to report on the various initiatives regarding the SDGs.	By paying attention to the SDGs and combining these with existing TKH goals, we contribute to SDGs through daily operations. In addition, the theme will receive attention in chain initiatives. We endorse this approach, which is in line with the existing CSR policy. We have the opinion that such an approach will benefit the integration of new areas of focus such as the SDGs in the organization.

Report of the Executive Board

We can look back on a positive year for TKH in several respects, with as highlight especially the strong starting position that has been created for the growth of turnover and profit in the coming years.

TKH made significant investments in the roll-out of innovation projects in the seven vertical growth markets. With this, we have laid solid foundations for growth in turnover and profit. The vertical growth markets realized a high organic growth of 11.3% in the year under review. A large proportion of the innovation projects in these vertical growth markets, which involve disruptive technology, are still in the roll-out stages. Besides, we incurred high start-up costs and additional costs for the build-up of substantial additional production capacity. This put pressure on the profitability of Building Solutions, but we are positive about the return potential in this business segment.

The choice for the vertical growth markets and the related focus within TKH on priorities for investments and the availability of resources proved its success. This has been translated into an optimal use of opportunities in these market segments. At the same time, we can see that the activities outside the vertical growth markets also have shown good growth of 9.3%, mainly driven by the improving market in the building and construction sector as well as in the industrial sector, but also by the innovations.





In the year under review, TKH achieved some significant milestones from a strategic perspective. We booked a further increase in market share among the top-5 tire manufacturers, continued to increase our market share in consumer electronics with machine vision technology, rolled-out the first projects for the airfield ground lighting (AGL) portfolio based on the disruptive CEDD technology and started up the subsea production capacity. These building blocks have great potential. We have also strengthened the R&D, operational and commercial organizations so we can respond effectively to the expected market demand. The additional costs related to additional production capacity were applicable to manufacturing systems with the construction of a completely new factory in Poland for the production of tire building systems, and within security vision with the move to a new 'state of the art' building in Canada for the expansion of our production capacity for 3D camera technology, including additional office space for the growth of the number of R&D and commercial staff, and secondly the expansion of our 2D camera production capacity in Germany.

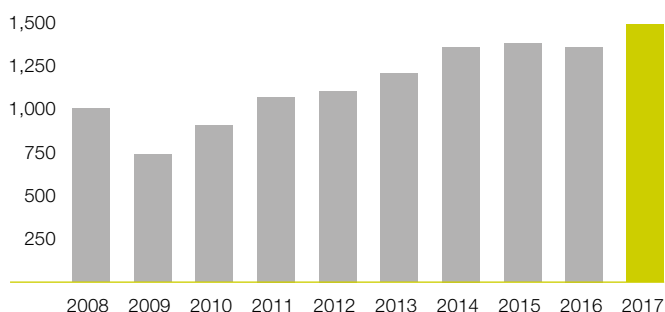
We will continue to invest in the organizations for Machine Vision, Tunnel & Infra and Tire Building Industry in particular

on the basis of the growth opportunities we see. However, these investments will be lower than in recent years. We have made preparations to expand production capacity for optical fiber networks and high-grade industrial cable systems in 2018, based on concrete opportunities we have seen in these markets.

By tightening up the focus on our core technologies, steps were taken to phasing-out activities that are insufficiently linked to the core technologies or bring too low returns because they are too much commodity related. In this respect, one-off costs were incurred. Additionally, much attention was paid to the value creation of TKH with a thorough analysis of the activities and, in connection with this, the value creation potential for the short- and medium-term. On this basis, it was decided to explore for a number of activities whether the value creation potential of these activities could be greater outside TKH Group, or a divestment would be a better option for the value creation of TKH. The conclusion is that steps can be taken here, and a program has now been linked to the possible divestments of a number of activities. This program will have a positive effect on the value creation of TKH for the medium-term.

TURNOVER DEVELOPMENT

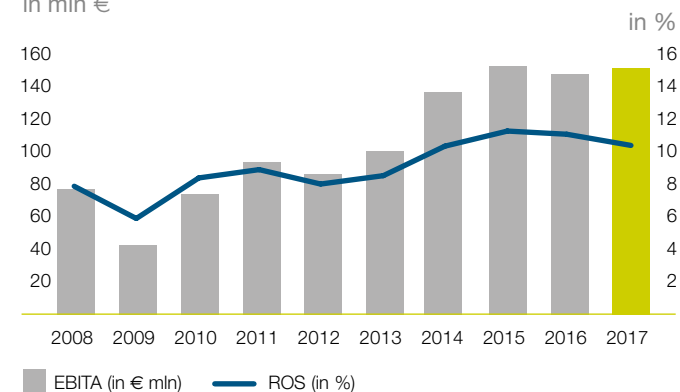
in mln €



Our positions in the vertical growth markets are developing well and we expect strong market growth in the coming years. With this in mind, we have made upward adjustments to the bandwidth of our turnover growth targets for the vertical growth markets Machine Vision and Fiber Optic Networks. For Machine Vision, we have raised the bandwidth to € 250 to € 300 million (turnover 2017: € 127 million) and for Fiber Optic Networks we have increased the bandwidth to € 175 million to € 200 million (turnover 2017: € 127 million). In Machine Vision, we created a breakthrough in the market for consumer electronics with the successful market introductions of our innovations in the field of 3D camera and sensor technology. We are also confident about the potential for our embedded 2D camera technology on the basis of the feedback we received on the introduction. The number of applications that use 2D and 3D vision technology for quality inspections and production process monitoring continues to increase rapidly, which has resulted in greater than expected growth in market demand. For Fiber Optic Networks, we noted a continued increase in global market demand, with accelerated growth in Europe. Our successful positioning and strong market positions in the European market means that we will be able to benefit from this

EBITA AND ROS DEVELOPMENT*

in mln €



* before one-off income and expenses

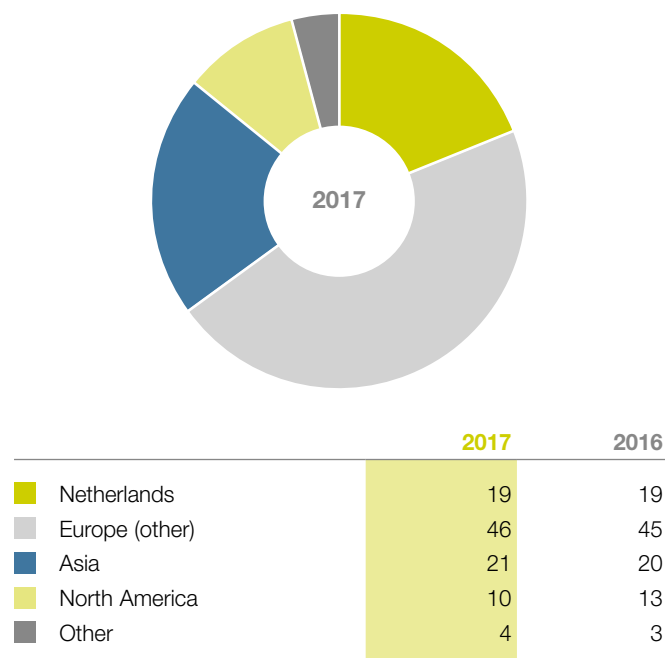
increase in demand in the coming years. On the basis of the implementation of our growth plans, in combination with the defined building blocks for growth and related roll-out of new technology, we expect that growth in turnover and profit will further materialize. This provides a solid foundation for our expectation that the turnover in the seven vertical growth markets can increase by € 300 to € 500 million in the coming 3-5 years.

Within the vertical growth markets, growth was evident in six of the seven segments. Turnover only decreased within the vertical growth market Parking. This was mainly due to the explosive growth in the previous year, which meant that we marked our time in the first half of 2017 in the realization of projects and, at the same time, a number of

technical issues from the past, that were blocking for the acquisition of new assignments, had to be resolved. R&D expenses increased by € 9.6 million to € 59.9 million. As a technology company, it is necessary to remain up-to-date regarding the technological lead. The ambition for growth to be realized requires a highly innovative character and associated R&D costs and investments. It is important here 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 the turnover from innovations, consisting of innovations introduced in the market in the past two years, was again high at 22.2%. This confirms the effectiveness of our R&D efforts.

The progress of the strategic development of TKH means also that the perspective for a higher ROS as a bandwidth for our medium-term objective is appropriate. It was therefore decided to increase the target for the ROS from a bandwidth of 11-12% to 12-13%, despite the realization in 2017 of 10.2%. By increasing the bandwidth for the ROS and the focus on organic growth, it was also decided to adjust the bandwidth for the medium-term ROCE target upwards from 20-22% to 21-23%. The realization of the ROCE in 2017 was 19.8%.

GEOGRAPHICAL DISTRIBUTION OF TURNOVER in %



The cooperation within the group received a lot of attention by means of various cooperation projects. Particularly within the vertical growth markets, we see that our subsidiaries are increasingly cooperating jointly in the form of technology roadmaps for our core technologies and combine strength to make optimal use of market positioning through account management. In this respect, various framework agreements were concluded with parties, where the TKH portfolio as a one-stop-shop offers added value for our customers.

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, turnover in the Netherlands increased by 11%, so the share of turnover in the Netherlands remained at the same level as the previous year at 19%. The share of turnover in Europe excluding the Netherlands increased slightly to 46% and the share of turnover in Asia increased slightly to 21%. On the other hand, the share in North America decreased to 10%, mainly as a result of the decrease in turnover in the area of security and parking. The share in turnover in the other geographical areas rose slightly to 4%.

Financial developments

Turnover in 2017 was up € 143.5 million (10.7%) at € 1,484.5 million (2016: € 1,341.0 million). Organic turnover growth was 8.8%. Acquisitions contributed 0.6% to turnover. Higher raw materials prices had a positive impact of 1.7% on turnover. The on average weaker foreign currencies against the euro had a negative impact of 0.4% on turnover.

Telecom Solutions recorded organic turnover growth of 14.1% in 2017. At Building Solutions, organic turnover growth was 7.9% in 2017 and amounted to 8.3% at Industrial Solutions. Industrial Solutions' contribution to total turnover declined to 44.3%, from 44.5%, while the contribution from Building Solutions dropped to 42.8% from 42.9%. Telecom Solutions' contribution increased to 12.9%, from 12.6%.

The gross margin declined to 45.1% in 2017, from 47.1% in 2016. This was due to higher raw materials prices, changes to the product mix, use of materials for the start-up of the subsea production capacity and one-off costs related to the upgrading of technology for parking guidance systems. Operating expenses were 7.0% higher than in 2016. This increase was largely due to higher production levels. Expenses also increased due to start-up costs for the subsea production capacity, the launch of a new production plant in Poland for tire building systems, the expansion of production capacity in Canada and Germany for Machine Vision and the expansion of the R&D and commercial organizations. These investments,

especially those at Building Solutions, were in preparation for the targeted growth in the vertical growth markets. R&D expenses increased to € 59.9 million (2016: € 50.3 million), with around 51% of this amount capitalized as development costs. Acquisitions resulted in an increase of 1.0% in operating expenses. Operating expenses as a percentage of turnover declined to 35.0% in 2017, from 36.1% in 2016. Depreciation amounted to € 24.8 million in 2017, which was € 2.7 million above the level of 2016, as a result of the increase in investments in recent years.

The operating result before amortization of intangible assets and one-off income and expenses (EBITA) was € 150.8 million in 2017, up 2.9% from the € 146.5 million recorded the previous year. EBITA at Telecom Solutions and Industrial Solutions was up 44.8% and 12.4% respectively, while EBITA at Building Solutions declined by 17.6%. The ROS fell to 10.2% (2016: 10.9%).

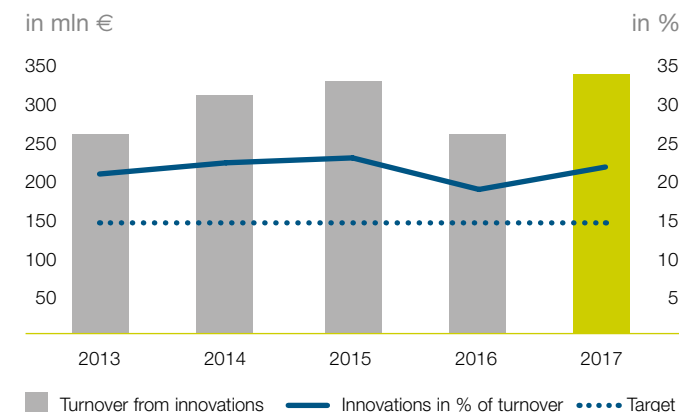
The program for further focus on core activities and improvement of results, leads to a total one-off costs of € 6.3 million for the full year 2017.

Amortization costs came in € 3.9 million higher at € 36.5 million, primarily due to higher R&D investments. In addition, TKH recognized impairments of on balance € 1.8 million.

Financial expenses fell by € 0.7 million to € 6.9 million in 2017 on the back of improved interest rates as a result of the refinancing agreement signed in January 2017. However, this benefit was negated by negative exchange rate effects of € 1.1 million. The result from other participations improved by € 0.4 million. In addition, a net book profit of € 5.8 million was realized on the sale of our 5.06% interest in Nedap.

At the end of July 2017, TKH agreed a settlement in the squeeze-out procedure involving the former minority shareholders of Augusta Technologie AG. This settlement was lower than expected and therefore resulted in one-off

TURNOVER FROM INNOVATIONS



untaxed income of € 2.2 million, due to the partial release of the financial liability. In addition, last year also saw a release of earn-out liabilities. On balance, this resulted in one-off income of € 3.8 million.

The tax rate for 2017 was 19.0% (2016: 18.4%). The release of the squeeze-out and earn-out liabilities and the result from the sale of the interest in Nedap are tax exempt and therefore reduced the effective tax rate. Fiscal R&D facilities, such as the Dutch innovation box facility, also had a downward impact on the total tax rate. However, the tax reform in the US resulted in an increase in taxes of € 1.8 million due to a lower valuation of deferred tax assets.

Net profit before amortization and one-off income and expenses attributable to shareholders increased by 2.4% to € 96.6 million in 2017 (2016: € 94.4 million). The net profit for 2017 was € 88.6 million (2016: € 87.3 million). Earnings per share before amortization and one-off income and expenses came in at € 2.30 (2016: € 2.25). The ordinary earnings per share amounted to € 2.08 (2016: € 2.04).

The cash flow from operating activities was € 159.6 million in 2017 (2016: € 104.1 million). This increase was largely due to a decline in working capital, compared to an increase in 2016. At year-end 2017, working capital as a percentage of turnover stood at 11.4% (2016: 13.4%). Net investments in tangible non-current assets came in at € 40.9 million in 2017 (2016: € 45.5 million). A major part of this was related to investments in production plants, including the expansion of capacity for the sub-segments vision & security systems, building connectivity systems and manufacturing systems. In addition, € 35.1 million was invested in 2017 in intangible non-current assets, mainly R&D, patents, licenses and software (2016: € 28.9 million).

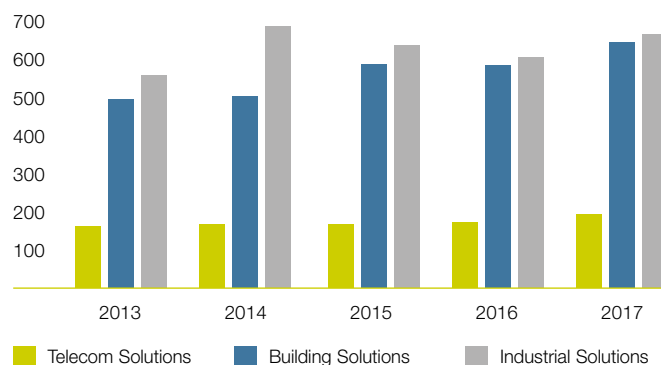
Solvency rose to 46.9% in 2017 (2016: 46.7%). The net bank debt, calculated in accordance with the financial covenants, had fallen to € 157.8 million at year-end 2017, a drop of € 8.3 million compared to year-end 2016. The net debt/EBITDA ratio came in at 0.9, which means TKH was operating well within the financial ratio agreed with its banks.

Dividend proposal

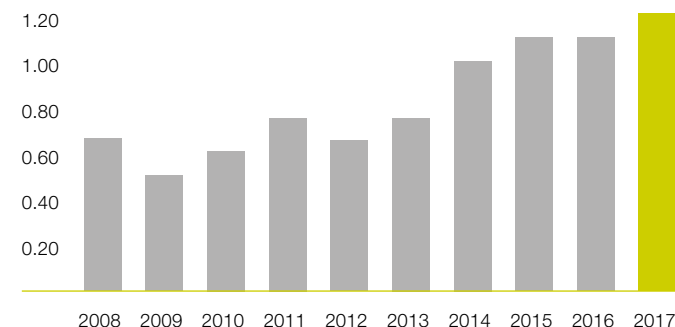
At the Annual General Meeting on May 3, 2018, TKH will propose the payment of a dividend of € 1.20 per (depository receipt of a) share (2016: € 1.10). Based on the number of outstanding shares at year-end 2017, this amounts to a pay-out ratio of 52.2% of net profit before amortization and one-off income and expenses attributable to shareholders and 57.0% of net profit. TKH will propose the payment of a cash dividend to be charged to the reserves. The dividend will be payable on 14 May 2018.

TURNOVER PER SOLUTIONS SEGMENT

in mln €



DIVIDEND in € per (depository receipt of) share



Developments per Solutions segment

TELECOM SOLUTIONS

Turnover in the Telecom Solutions segment was 13.6% higher at € 191.5 million. Organic turnover growth was 14.1%, while exchange rates had a negative impact of 0.5% on turnover. The growth was realized in the sub-segment fibre networks systems.

EBITA was up € 8.0 million on the back of higher capacity utilization and efficiency improvements in production. Price levels also improved. The ROS improved to 13.5% from 10.6%.

FIBRE NETWORK SYSTEMS

This sub-segment saw organic turnover growth of 24.9% on the back of unchanged high demand for optical fibre. Turnover in optical fibre network systems increased primarily in Germany, Poland, France and the Nordic countries. In France, we strengthened our sales organization and won several orders for a portfolio developed specifically for the French market. This translated into an increase in our market share. Partly due to strong global demand for optical fibre, the growth was realized at an improved pricing level. The high level of capacity utilization and efficiency improvements realized in production had a positive impact on the result.



INDOOR TELECOM & COPPER NETWORKS

This sub-segment recorded an organic turnover decline of 1.1%, largely as a result of a continued drop in investments in passive components for copper cable networks and a continued shift in the priority for investments towards optical fibre networks. The margin improved on the back of an improved product mix.

FIBRE NETWORK SYSTEMS

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

TURNOVER SHARE

8.3%

INDOOR TELECOM & COPPER NETWORKS

home networking-systems, broadband connectivity, copper cable, connectivity systems and components, active peripherals

TURNOVER SHARE

4.6%

KEY FIGURES TELECOM SOLUTIONS

in mln € (unless otherwise stated)

	2017	2016	change
Turnover	191.5	168.5	+13.6%
EBITA	25.9	17.9	+44.8%
ROS	13.5%	10.6%	

BUILDING SOLUTIONS

Turnover at the Building Solutions segment was up 10.5% at € 635.5 million. Organic growth came in at 7.9%. Acquisitions contributed 1.4% to this growth. Currency exchange rates had a negative impact of 0.9% on turnover. Higher raw materials prices had an impact of 2.1% on turnover.

EBITA before one-off expenses declined by 17.6% to € 51.4 million. The operating result was reduced by high start-up costs related to the new subsea production capacity in Lochem and the development of the airfield ground lighting-portfolio (CEDD), which generated only limited turnover. Furthermore, turnover growth in Parking lagged behind, while costs were higher in the segment. The ROS was 8.1% in 2017, down from 10.9% in 2016.

VISION & SECURITY SYSTEMS

This sub-segment recorded organic turnover growth of 0.7%. TKH recorded strong growth in the vertical growth market Machine Vision in the first half of the year, while growth in the second half of the year leveled off somewhat. The growth of Machine Vision was driven in particular by a breakthrough among producers of consumer electronics. Our market share was still limited in 2017, but the roll-out of distinctive 3D technology has resulted in a strong growth of our position in the consumer electronics market and this offers positive perspectives for growth in the coming years. Mid-2017 saw the successful launch of our embedded 2D camera technology. The large-scale roll-out of this new generation of technology is scheduled for the third quarter of 2018.

At Parking, the EBITA decreased due to a delay in order intake and delivery of parking guidance systems, while the organization was already built up, anticipating further



growth. In addition, there were mainly in the first half-year one-off expenses for the upgrading of technology for some installed parking guidance systems.

CONNECTIVITY SYSTEMS

This sub-segment recorded organic turnover growth of 19.2%. The growth came from a variety of segments. In the construction and infra sector, TKH was able to benefit from an increase in market volume. The demand for data cable systems also increased. In the vertical growth market Tunnel & Infra, the new CEDD technology for airfield ground lighting ('AGL') was rolled out and contributed to the growth in turnover. The innovative AGL system integrates various TKH technologies. Airports are showing a great interest in this disruptive technology. We have strengthened the operational and R&D organization for the airport market specifically to meet the expected demand.

In Marine & Offshore, growth was realized on the back of increasing demand for connectivity systems. However, in this vertical growth market we also recorded high start-up costs for the new production facility for subsea cable systems, which only generated limited turnover. The strongly innovative nature of a large proportion of the production equipment resulted in a clear learning curve, which was largely completed in the fourth quarter and involved high levels of expenditure.

VISION & SECURITY SYSTEMS

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

TURNOVER SHARE

24.1%

CONNECTIVITY SYSTEMS

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

TURNOVER SHARE

18.7%

KEY FIGURES BUILDING SOLUTIONS

in mln € (unless otherwise stated)

	2017	2016	change
Turnover	635.5	574.9	+10.5%
EBITA before one-off income and expenses ¹	51.4	62.4	- 17.6%
ROS	8.1%	10.9%	

¹ The one-off expenses in 2017 were restructuring costs of € 6.1 million.

INDUSTRIAL SOLUTIONS

Turnover in the Industrial Solutions segment increased by 10.0% to € 657.5 million. Currency exchange rates had a negative impact of 0.1% on turnover. The on average higher raw materials prices had a positive impact of 1.8%. The organic turnover growth came in at 8.3%. The growth in turnover was realized in both sub-segments.

Full-year EBITA increased by 12.4% as a result of higher turnover and production capacity utilization. The ROS improved to 13.6% (2016: 13.3%).

CONNECTIVITY SYSTEMS

This sub-segment saw organic turnover growth of 3.8%. The increase in turnover came mainly from the medical industry and robot industry. TKH has decided to expand the production capacity for high-grade industrial cable systems in 2018 to respond to the growing demand for robot systems. We invest continuously in R&D and this enables us to respond optimally to the trend of miniaturization and the extension of the life of cable systems for advanced production systems.

MANUFACTURING SYSTEMS

This sub-segment booked organic turnover growth of 11.4% due to higher order intake in the preceding quarters, which raised engineering activity and production to a higher level. This resulted in improvements in EBITA and ROS. Order intake was € 346 million in the full-year 2017 (2016: € 281 million). A number of expected contracts were shifted over the year-end. The order intake in 2017 was driven by both the continued recovery in order intake from China and growth in the market share among the top-5 tire manufacturers. The share of engineering increased significantly because we sold a relatively high number of newly developed machines, including the MILEXX, and



due to client-specific developments for the top-5 tire manufacturers. This had a substantial impact in 2017 on the throughput time of the orders, which meant higher order intake did not immediately result in higher production value and turnover. The order book was better filled at year-end 2017 compared to a year earlier because of the high order intake in previous quarters. The focus and expansion of the service organization and services also contributed to the turnover growth.

CONNECTIVITY SYSTEMS

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

TURNOVER SHARE

17.9%

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

26.4%

KEY FIGURES INDUSTRIAL SOLUTIONS

in mln € (unless otherwise stated)

	2017	2016	change
Turnover	657.5	597.6	+10.0%
EBITA before one-off income and expenses ¹	89.4	79.5	+12.4%
ROS	13.6%	13.3%	

¹ The one-off expenses in 2017 were restructuring costs of € 0.2 million.

Acquisitions, investments and divestments

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

ACQUISITIONS

In April 2017, TKH acquired the shares of Redline CNC Manufacturing Inc. ('Redline') in Canada. Redline is a manufacturer, amongst other things, of camera housing systems. The business has been integrated into TKH's subsidiary LMI Technologies ('LMI') in Canada. This acquisition will make it possible for LMI to be more readily able to anticipate market demand by shortening R&D lead times. Redline's activities are part of the TKH sub-segment vision & security systems, within Building Solutions and strengthen the vertical growth market Machine Vision. Redline achieves an annual turnover of approximately € 3 million with 25 employees.

At the beginning of July 2017, TKH acquired all of the shares of Jacques Technologies Pty Ltd. ('Jacques') in Australia. Jacques is a regional market leader of mission critical communications systems in Australia and South East Asia, which systems the company develops and manufactures by itself. This acquisition will lead to synergy benefits for TKH Group, especially with the Commend group. Jacques' activities are part of the TKH sub-segment vision & security systems, within Building Solutions.

Jacques achieves an annual turnover of approximately € 4 million with 38 employees.

In November 2017, TKH reached agreement on the acquisition of the remaining minority interest of 26% in Commend International GmbH ('Commend International') in Austria. Following this transaction, TKH holds all of the outstanding shares of Commend International, thereby making it possible to continue to develop a leading position in mission critical communications systems. The transaction was finalized in January 2018.

DIVESTMENTS

Because of the focus on the four core technologies, in the context of a strategic reorientation, attention was once again paid in the past year to activities that are insufficiently aligned with the TKH strategy.

In September, TKH sold its interest of 5.06% in N.V. Nederlandsche Apparatenfabriek ('Nedap'). The divestment of this interest is related to TKH's renewed focus on its four core technologies in conjunction with its seven vertical growth markets. The transaction resulted in a one-off net income of € 5.8 million.

In the fourth quarter, it was decided to terminate some activities within Building Solutions, in line with the continued focus. This mainly concerns distribution activities of commodity products without own technologies. A one-off charge was taken for this in the fourth quarter.

INVESTMENTS IN TANGIBLE NON-CURRENT ASSETS

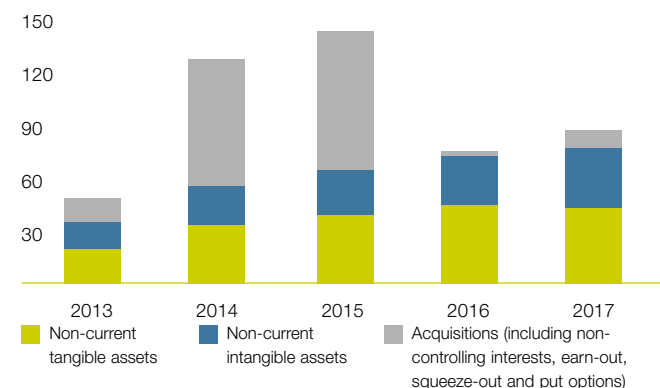
In 2017 net investments in tangible non-current assets amounted to € 40.9 million (2016: € 45.5 million). Investments were primarily injected into the sub-segments building connectivity systems, vision & security systems and manufacturing systems. A significant part of the investments involved an extension of building and production capacity. Depreciation on tangible non-current assets amounted to € 24.5 million in 2017 (2016: € 22.8 million).

INVESTMENTS IN INTANGIBLE NON-CURRENT ASSETS

In 2017 € 35.1 million was invested in intangible non-current assets (2016: € 28.9 million). The most important investments involved the (ongoing) development of our technologies for our solutions for our vertical growth markets, as well as related patent fees. Amongst other things, they included new generations of tire building

INVESTMENTS

in mln €





Jacques Technologies Pty Ltd, Australia

systems, our subsea portfolio and manufacturing technology, contactless energy and data distribution (CEDD) for airfields, medicine distribution system, a new security platform for communications systems, and 2D and 3D vision portfolio.

The expenditure on the acquisitions amounted to € 5.8 million (2016: € 0.8 million). As a result of these acquisitions intangible non-current assets increased by € 4.6 million because of purchase price allocations for the acquisition of brand names, customer databases, intellectual property and goodwill paid (2016: € 1.4 million).

MANAGEMENT BOARD



MANAGEMENT BOARD TKH GROUP

On the picture from left to right:

Gertjan Sleeking - TKH Group
 Renate Dieperink MBA - TKH Group
 Alexander van der Lof MBA, *chairman* - TKH Group
 Arne Dehn - TKH Group
 Harm Voortman MSc - VMI Group
 Elling de Lange MBA - TKH Group

STAFF TKH GROUP

Financial Affairs

Gertjan Sleeking

Internal Audit

Derk Postma

Legal Affairs

Maarten Fonkert

Personnel & Organization

Elling de Lange MBA
 Renate Dieperink MBA

Company Secretary / CSR

Renate Dieperink MBA

Personnel and Organization

The quality of both the organization and its employees is a decisive factor in the success and growth of TKH. 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 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 us flexible, with the result that we are able to respond to market opportunities and customer requirements quickly and alertly.

CULTURE AND INTEGRITY

TKH has a culture in which entrepreneurship is stimulated, as well as an active market approach combined with an in-depth analysis of opportunities and risks with a restrained approach and acceptance of risks. Given its decentralized organizational structure, responsibilities are assigned as far down as possible in the organization with a thorough control and monitoring system. The Executive Board and the management of our subsidiaries give example and guidance on the right standards and values within the organization. An important starting point underlying TKH's management structure and its operating companies lies in ensuring that there is a good balance of personalities, expertise and skills at the top of the company. 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, the management at 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, ensures that work is carried out in accordance with appropriate principles and arrangements. Conduct 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 behaviour in accordance with the standards that we aspire to. Collaboration and the conduct of the companies' management teams is 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 staff at every level of the company and with its external stakeholders. The Executive Board and also the cluster management teams meet and visit 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, holding project meetings or arranging guided tours.

RISK MANAGEMENT

Risks with regard to entrepreneurship are clear through a strict and clear framework of responsibilities and powers. In this respect, an open, transparent culture, as part of which the organization is open to criticism, is a condition for appropriately dealing with risks, responsibilities and powers, and for recognizing them in the right way. 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 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 divided into weekly, monthly and quarterly information and presents an overview of the relevant KPIs over lengthy periods. A sound reference framework, such as a budget and historical information, makes it possible to identify any deviation from arrangements quickly and appropriately. Trends and deviations in positive and negative sense are discussed extensively in order to be able to understand developments and, if necessary, to be able to make adjustments in the operations. From the top of the company, it is encouraged to apply this method in all parts of the organization.

With the management of the subsidiaries, the 'strategic scorecard' is discussed every quarter or, if necessary, more frequently on a monthly or weekly basis, on the basis of 'high-lights' and 'low-lights' per Solutions segment, as well as related action points on short- and medium-term. This provides clear insight into market, financial, commercial and sustainability developments in order to identify potential risks at an early stage and to take the desired organizational measures. The reports provide both quantitative and qualitative information and are structured according to a template determined by TKH. This encourages reporting on both positive and negative issues in a transparent manner.

MANAGING THE ORGANIZATION

Based on its market approach, TKH has defined seven vertical growth markets for which it forecasts that an above-average growth can be achieved. In each vertical market one member of the Executive Board is responsible for achieving the objectives. 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 the context of organizing the cohesion between subsidiaries, clusters of subsidiaries have been arranged and been brought under a single responsible manager. The result is greater efficiency in managing the organization, since the clusters organize joint activities, such as product development (R&D), marketing, communications and sales support. Moreover, this arrangement leads to consistency in branding and customer approach with clear positioning toward the vertical growth markets.

The Management Board supports the Executive Board in the operational implementation of its strategy. This Management Board consists of the three members of the Executive Board, as well as the CEO of VMI Group, TKH's Director Finance and Control and the company secretary of TKH. 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.

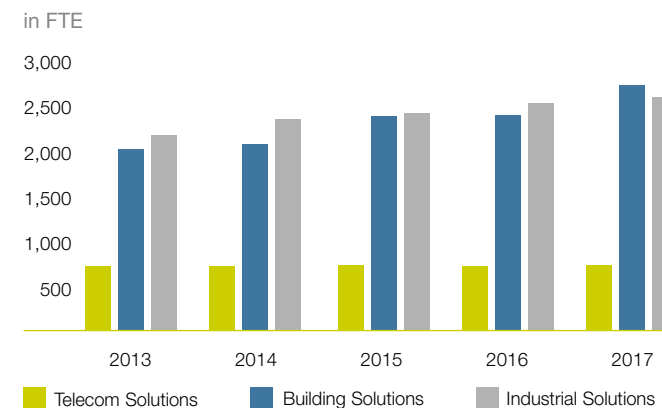
In addition, TKH has a Strategic Sounding Board consisting of managers bearing ultimate responsibility in a subsidiary, in which TKH's technologies and vertical growth markets are represented. This Board discusses and assesses the execution of TKH's strategy. Together with the Management Board, the members of the Strategic Sounding Board serve as an effective forum for the discussion of strategy, potential dilemmas, technological and portfolio developments, as well as business development within TKH Group. This platform also provides an opportunity to involve emerging talent in the development and execution of strategy at an early stage, and also to give substance to management development.

TALENT DEVELOPMENT

Talent and management development are acquiring ever greater strategic value. We devote attention to recruiting, developing, training, and retaining talent to and in our organization. Our aim is to create a clear picture of the preferred profiles and competencies of new employees, on the one hand, and internal promotion and talent development within the organization, on the other. 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 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.

TKH adopts a decentralized approach towards its human resources policy, as part of which local management is responsible for implementing this policy within the

NUMBER OF EMPLOYEES PER SOLUTIONS SEGMENT





guidelines that TKH has established. This makes it possible for the subsidiaries to adapt quickly in response to changing circumstances and adopt the appropriate organizational measures.

EMPLOYEE REPRESENTATION

The interests of the employees are promoted at the level of the subsidiaries by the local Works Councils, and at TKH Group level by the Central Works Council. These councils maintain employee representation structures under the terms of the Works 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 movements in the company's results, organizational developments, strategy, budget, investments and the TKH annual report. Special matters that were dealt with during the year under review were the acquisition of Redline in Canada and Jacques in Australia, reappointments to the Supervisory Board and also developments in pensions. Via study days, the Central Works Council also addressed actual themes affecting the council and the consultative structure in general. A member of the Supervisory 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 staff representative bodies in the Dutch subsidiaries, TKH organizes an annual Works Council day for all members of the Works Councils and staff representatives. This day is always organized on the premises of one of the subsidiaries. The Executive Board gives a presentation on developments within TKH. In addition, current issues are dealt with and the Managing Director of the subsidiary at whose premises the day is being held gives a presentation of the company, which is followed by a guided tour. Moreover, time is set aside for informal discussion, so as to be able to share information with each other in this way as well. This time the Works Council day was held in Lochem and featured, amongst other things, a tour of the new plant for the production of subsea cable systems. TKH believes that consultations with the Works Councils and the Central Works Council are important and attaches great value to an open dialogue. We believe that adopting an active approach to employee representation helps us stay alert.

The Central Works Council exists at the end of 2017 of the following members:

CENTRAL WORKS COUNCIL TKH GROUP

Pepijn Hofman (EKB), *chairman*
 Gerard Roolvink (TKF), *secretary*
 Maurice Fliescher (Intronics)
 Han ten Have (VMI)
 Berry Mennink (VMI)
 Har Ritzen (Eldra)
 Louis Scholten (TKF)
 Onno Verkerk (Siquira)



25th anniversary Central Works Council

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.

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

CSR STRATEGY

As a matter of strategic priority, CSR is firmly anchored in our day-to-day operations, and CSR initiatives are more and more being integrated into our organization. Our CSR policy is future-focused and provides a framework for our short- and medium-term plans, without losing sight of our business interests. We report in line with the international guidelines of Global Reporting Initiatives (GRI G4.0) and endorse the OECD guidelines for international business in the field of corporate social responsibility. We apply the IIRC (International Integrated Reporting Council) value creation model to show how long-term value is created within TKH Group.

CSR is fully integrated in our business operations. In other words, when we implement our strategy and achieve our objectives we take into account both our social responsibilities in relation to all relevant stakeholders and the effects of our activities and operations.

We have identified four areas with specific programs for sustainability themes and targets:

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

The Executive Board is intensively involved in the on-going development of our CSR strategy and initiatives. Interactions with our subsidiaries ensure that 'best practices' are shared, so that we can continue to tighten and improve our performance.

TRENDS

In our business operations, we focus on the external and internal environmental factors and analyze trends that are apparent. We then make an estimate of the relevant opportunities and risks and see how we can provide added

value for our stakeholders and society in general. The table on the next page shows our added value in CSR for each trend and how we manage this internally based on clear objectives.



TRENDS IN CSR

TREND	OUR ADDED VALUE / OPPORTUNITIES	TARGETS	POSSIBLE RISKS	CSR SUB-AREA	SDG
Positive growth forecasts for the world economy - increasing importance of Asian countries.	Ambitious but realistic financial targets with a sound risk-management system.	Focused acquisition policy - financial targets.	Acquired companies are not successfully integrated.	Profit	
Increased investments in sustainable technology and modern infrastructure. Increased consumer spending.	Focus on four core technologies and seven vertical growth markets.	Expected growth in the vertical growth markets for the next 3-5 years from € 300 - € 500 million.	Dependency on government measures in some markets.	Positioning	
Globalization in the value chain. Increased co-operation in the chain in relation to sustainability issues.	Knowledge of the operation and of the markets in which we operate. Active chain approach.	Active participation in chain initiatives. Code of supply and assessments at suppliers.	Dependency on customers and suppliers. Non-compliance with legislation and regulations by chain partners. Image or reputational damage at chain partners.	Positioning	
Increasing demand for efficiency and the provision of integrated solutions. Ever-shortening product life cycle. Increased demand for modular systems.	Innovative capacity and investments in R&D. Knowledge of the market and customer wishes.	Customer satisfaction and rapid complaint-resolution procedure.	Reputational damage as we do not sufficiently satisfy customers' expectations, resulting in underperformance of result and turnover development.	Positioning	
Resources becoming exhausted. Fossil-fuel sources becoming increasingly scarce.	Waste reduction and recycling. Energy and CO ₂ -reduction program.	Targets for reduction of energy consumption, CO ₂ emissions and waste. Waste recycling.	Important raw materials are unavailable or available in limited quantities. Volatility of raw material prices.	Planet	
Internet of things / Industry 4.0. Emergence of vision technology and robotic automation.	A balanced and sustainable product portfolio.	Innovation target.	Speed of technological developments at competitors offering more perspective. Risks presented by cyber crime.	Positioning	
Demand for more efficient and reliable production processes.	Core technologies that respond to the demand for greater efficiency and safety.	Focus on investments and acquisitions of companies that have a direct relationship with the four core technologies.	Failure to meet customer expectations.	Positioning	
As the workforce ages, knowledge is flowing out of the company. Shortage of skilled workers.	Interesting employer with a focus on entrepreneurship and development opportunities, as well as good employment practices, ethics and integrity.	Training courses. Performance and assessment interview. Employee satisfaction. Code of conduct.	Failure to hold on to qualified personnel. Undesirable or unethical behaviour on the part of employees, leading to reputational damage.	People	
Composition and age structure of the working population is changing. Work and private life will be integrated into new lifestyles.	The size and nature of the company creates opportunities for a broad working group.	Code of conduct. Sustainable employability. Attention for people with restricted opportunities on the labour market. Safe and healthy working environment.	No or insufficient match between the wishes and requirements of employer and workers, which may lead to conflicts.	People	

TKH IN THE VALUE CHAIN

One way to achieve sustainable business is to co-operate with parties in the value chain. Our objective in this is to enhance knowledge in the value chain and to develop sustainability initiatives.

Input

- Conversations are taking place with our suppliers of raw materials and semi-finished products on the sustainable sourcing of raw materials and possible alternative materials that will make our manufacturing processes more sustainable. We discuss the recycling of waste and residual materials with those same suppliers and with waste collection companies. We expect our suppliers to act sustainably as well and, to guarantee this, we have included our views in the 'code of supply'.

Throughput

- We have applied operational management models that have been incorporated in an operational excellence program. In this way we aim to achieve optimal performance in our operational processes with anticipated effects in the fields of efficiency, standards and safety. Within our manufacturing companies we use the LEAN principle: this is a method of eliminating all wastage from the manufacturing process by seeing where value can be added to it in the manufacturing process and by considering the actual customer demand. Processes are discussed daily in the operational environment in order to continuously improve them. Where possible, procurement needs in the Group are combined to exploit economies of scale. The core technologies are combined to form innovative total systems in order to be able to meet customer demand and to increase opportunities in the market.

Output

- With our technology platforms and by using our specific knowledge of the product and market we are able to deliver the best possible solutions for our customers with a satisfactory return on investment (ROI) and desired efficiency effects. Scarcity of raw materials and energy waste are topics that we discuss with customers, so that we are then able to tailor specific programs to address these points.

Outcome

- The composition of our products forms the basis for optimum recycling. By returning materials, components and products used to the right value chains we can create a sustainable business model.

VALUE CHAIN TKH GROUP

	INPUT	THROUGHPUT Business-model	OUTPUT Markets	OUTCOME End-of-life
SUSTAINABLE ACTIVITIES	<ul style="list-style-type: none"> • Raw materials and additives. • R&D/engineering. 	<ul style="list-style-type: none"> • Create an innovative, sustainable portfolio using our 4 core technologies. 	<ul style="list-style-type: none"> • Sustainable product portfolio with a high ROI for our customers. • Efficient, reliable manufacturing processes. 	<ul style="list-style-type: none"> • Sustainable finished products and recycling opportunities.
RESOURCES	<ul style="list-style-type: none"> • Specifically-trained workforce. • Financial resources. • State-of-the-art machinery park. 	<ul style="list-style-type: none"> • Efficient logistics and distribution. • Recycling. • Operational excellence and LEAN program. 	<ul style="list-style-type: none"> • Reduction of material and energy consumption in customer processes. 	<ul style="list-style-type: none"> • Zero energy. • Circular economy.

STAKEHOLDER DIALOGUES

Each year, TKH holds dialogues with a varied group of stakeholders on current affairs and topics with a bearing on society. The varied backgrounds and the knowledge that the stakeholders possess about TKH is a good starting point for discussion. This results in valuable insights from stakeholders in relation to interpretations in terms of areas in which TKH can make a difference. Moreover, dialogues can increase support for specific topics and, in certain cases, to understanding where a topic receives lower priority within our operations. The results of the dialogues are also taken into account in the review of the materiality matrix. The preparedness of stakeholders to enter into dialogue with us is something we value and, in our opinion, it underlines the relevance of the subject and the engagement of our stakeholders.

Various stakeholder dialogues were held during the year under review.



TOPIC	DIALOGUE IN 2017
BUSINESS DEVELOPMENT	<ul style="list-style-type: none"> We have talked with suppliers and customers so that we can make a joint contribution to sustainability issues, including high-quality recyclables and cable types suitable for recycling loops. We use our knowledge of the market, our technologies and product composition.
GOOD EMPLOYMENT PRACTICES	<ul style="list-style-type: none"> In 2017 we paid continuously attention to social issues, including health and safety at work. In that sense we believe it is important that workers can share their concerns and ideas on improvements that can be made. During the Works Council day in October 2017 we discussed current topics with the local Works Councils. In addition, this is a unique opportunity to exchange knowledge. We took part in company days for tertiary-education programs in order to come into contact with students as possible future employees. We organize tours and presentations for students of all ages to get them acquainted with our technologies and the work we do.
INVESTOR RELATIONS	<ul style="list-style-type: none"> In 2017, the CEO and CFO took part in road shows and conferences in which discussions were conducted with investors (potential or otherwise). We held various one-to-one talks with investors that, in addition to financial and strategic subjects, increasingly dealt with sustainability issues. During the publication of the six-monthly and annual figures we organized meetings with analysts.
VALUE CHAIN INITIATIVES	<ul style="list-style-type: none"> Once more, we took part in sector-wide initiatives highlighting circular economy and chain-innovation programs. That includes the 'Plastic and rubber in underground infrastructure' innovation program, with which we are making a commitment to the ambition of 100%-circular use of materials in the underground infrastructure for 2040. As a supplier of cable systems, we are a consulting partner for Dutch infrastructure companies that are focusing on the 'Fair Infra' mission statement. The aim is to accelerate the transition to sustainable energy. We take part in steering and working groups organized by trade associations, which serve as platforms for following the development of technologies and the market. As a participant in the regional industrial platforms and in student network groups, we have a focus on regional developments in relation to employment and the strengthening of our economic position. In the year under review, we have, again, discussed compliance with the guidelines set out in our code of supply with our suppliers. In addition to our obtaining insight into developments in the value chain, this also gives us an insight into potential risks. We have held talks with strategic suppliers on extraction of raw materials, composition of components, working conditions and safety on site, and on the impact of the activities on the environment in order to prevent risks (including sustainability risks).
REVIEW OF CURRENT SUSTAINABILITY TOPICS AND POLICY	<ul style="list-style-type: none"> In the year under review, we have taken part pro-actively in social studies and information platforms, including the Transparency Benchmark, Tax Transparency Benchmark, Carbon Disclosure Project (CDP) and the Vigeo CSR portal. We have held stakeholder dialogues in the context of the CSR performance ladder. The central topic during the general TKH stakeholder dialogue in December 2017 was the Sustainable Development Goals (see page 35).

DILEMMAS

Sustainability initiatives are increasingly being developed for various target groups, and the business community is being asked to play an ever-greater role. We acknowledge our responsibility in this matter, but want to maintain a link with our operations as this gives the sustainability initiatives the required support and thus anchors them in our organization. In some cases, this can lead to conscious choices not to address topics or not to enter into collaborative partnerships, even though this has been requested.

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 energy consumption calls for thorough co-ordination of our manufacturing, which in turn is dictated by current demand. In the past few years we have pressed hard to reduce energy consumption and thus been able to carry through many savings schemes successfully. For that reason, the growing challenge facing us is to define new energy-reduction plans. In addition, the expansion of our manufacturing plants in 2017 has had the effect of increasing our energy consumption, while this rise in consumption can as yet only minimally be offset by the yield that these investments will realize.

We are increasingly being asked to provide information to third-party platforms and portals. In light of price-sensitive and competition-sensitive information it is not always possible to honour these requests. We take a selective approach to the promises we make in respect of such collaboration and make conscious choices on the information that we provide.



CSR OBJECTIVES

The materiality matrix (page 29) shows the most material subjects in respect of sustainable operations within TKH, on the basis of which we then define our objectives. We have defined targets for the subjects with a high relevance. The GRI 4.0 guidelines, among others, were used to define the KPIs. We monitor our objectives by means of a dashboard in our reporting system and assess the results each quarter in meetings with our subsidiaries. CSR is also part of the annual budget process.

In addition to the topics in the materiality matrix we have defined 'high-impact' SDGs which TKH is going to focus on in the next few years. These highlight 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). Existing targets are linked to these SDGs.

The table on the next page shows the objectives in combination with the KPIs used, plus the results achieved in the past two years.



CSR PROGRESS REPORT FOR 2017

Application of the GRI 4.0 guidelines and the associated communication on our sustainability performance leads to increased transparency. A satisfying confirmation of this is, once more, an improvement in the transparency benchmark for which TKH, with 174 points took 52nd place from a total of 477 participants (2016: 60st place). This benchmark is a study carried out on behalf of the Dutch Ministry of Economic Affairs and Climate and focuses on the substance and standard of CSR reporting in large-scale Dutch companies.

In the year under review we devoted attention to the sustainable development goals (SDGs) and the contribution towards these that TKH can make. Explanatory notes to accompany the SDGs are included on pages 33 and 34 in this report.

And during the year we made preparations for the report in accordance with the new GRI standard, which takes effect on 1 July 2018. The annual report for 2018 will conform to this new standard.

The initiatives that we have taken in the year under review with a bearing on sustainable business practice and results achieved will be dealt with in greater detail in the following sections. We do that using what we call 'the 4 Ps': People, Planet, Profit and Positioning.

	TOPIC INC. MATRIX NO.	KPIS	TARGET	2017	CWT**	2016
PEOPLE 	Good employment practices (6)	% of employees called for a performance interview.	At least 90% of the workforce.	83%	●	80%
	Training courses (4)	Number of hours devoted to education and training per FTE.	At least 16 hours/year per FTE.	22	●	21
	Health & Safety (7)	Number of industrial accidents involving at least one day's absence.	Annual decrease in number of accidents by at least 10%.	66 (33,3%)	●	99
		Total sickness leave compared with number of FTE.	<4.0%.	3.35%	●	2.98%
	Good employment practices (6)	Benchmark study into employee satisfaction.	No less than the benchmark (7.1).	7.2	●	7,2
	Code of conduct (2)	Number of employees who have signed the TKH code of conduct.	100%.	98%	●	97%
		Number of breaches of the code of conduct.	0 breaches.	0	●	1
	Diversity of workforce (14)	Number of workers employed who have a disability and/or restricted access to the job market.	Maintain at least the current number of workers.	105	●	105
PLANET  	Reduction in CO ₂ and energy (10)	Total energy consumption in kWh/turnover volume.	5% CO ₂ reduction in 2020 (benchmark 2015).*	Δ2016: -3.3% Δ2015: +0.8%	n.a.	Δ2015: +4.1%
		Carbon footprint (CO ₂ emissions).	2.5% reduction in 2020 (benchmark 2015).*	Δ2016: -2.8% Δ2015: +0.9%	n.a.	Δ2015: +3.8%
		Vehicle fleet: CO ₂ norm, expressed in g/km.	Average for new lease vehicles: < 135 g/km. In 2020: < 95 g/km.*	New: 107 Existing: 102	●	New: 90 Existing: 102
	Raw material consumption and waste reduction (12)	Total waste in terms of most relevant raw materials, offset against total consumption of materials.	Maximum of 5% of annual materials consumption of most relevant raw materials.*	5.0%	●	4.7%
		Recycling percentage for most relevant raw materials.	At least 50%.*	71.4%	●	71.9%
PROFIT 	Financial targets (1)	Net interest-bearing debt/EBITDA (debt leverage ratio).	<2.0.	0.9	●	1.0
		Return on sales (ROS).	11-12% in the medium- and long-term / from 2018: 12-13%.	10.2%	n.a.	10.9%
		Return on capital employed (ROCE).	20-22% in the medium- and long-term / from 2018: 21-23%.	19.8%	n.a.	20.1%
		Solvency.	>35%.	46.9%	●	46.7%
POSITIONING  	Sustainable customer and product portfolio (9)	Portfolio at an early stage in the product life cycle.	At least 15% of the turnover from innovations introduced in the two previous years.	22.2%	●	19.0%
		Benchmark study into customer satisfaction.	Customer satisfaction survey with an average score above the benchmark (7.8).	7.9	●	8.0
	Complaints procedures (8)	Percentage of total number of complaints resolved within five working days.	> 60%.	80%	●	70%
		Total number of complaints received relating to environmental requirements.	0 complaints.	4	●	3
	SRI (5)	Percentage of strategic suppliers (supplying goods worth in excess of €1 million) who have signed the code of supply.	100% in 2017.	80%	●	77%
		Percentage of assessments conducted with strategic suppliers.	Within 2 years of signing the code of supply.	78%	●	75%
	Good causes (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%

PEOPLE

CONSEQUENCES OF OUR BUSINESS OPERATIONS FOR OUR WORKFORCE

TKH's strategy, and the challenging but realistic targets derived from it, focuses on a market-driven, innovative approach. This demands a qualified workforce. Various initiatives are being developed to keep our employees interested and committed and to attract people to TKH. We aim to have an open business culture, in which employees are acknowledged and heard. In addition to a good working culture, we offer a safe and healthy working environment. More to the point, the nature of our business is very attractive to potential employees so that TKH stands to gain recognition as a company that inspires interest.

WORKFORCE AND DIVERSITY

TKH is an international group of companies with a workforce that consists of many nationalities. We take a broad view of diversity in an international context of this kind. TKH operates a strict policy of equal treatment for all employees, regardless of race, nationality, ethnic background, age, religion, gender, sexual orientation or handicap.

At year-end 2017, the number of employees (in FTE) was 5,900 (2016: 5,509 FTE). The rise is primarily the result of investments in R&D and commercial organizations, as well



as in the manufacturing activities. At year-end 2017, there were 522 (FTE) temporary employees employed (2016: 439 FTE). This rise is primarily due to increasing manufacturing activities.

Our diversity policy is aimed at getting the organization to work better by having the optimum mix of personnel. The policy aims to attain a diversity of abilities, skills and nationalities reflecting a mix of men and women, and strike an even distribution of age ranges. When filling positions we look at factors including education, background, personality, gender and age.

In relation to the distribution of age ranges there is a balanced make up. 73% of our employees is younger than 50 years of age. Over 56% of the total number of employees falls between 30 and 50 years of age. The consequence of this spread of ages is that positions at junior, middle and senior level are well represented. Furthermore, the current distribution of ages means that there is a manageable rate of natural outflow and retirement. In 2017 14% left the organization, while 21% joined the organization (this was 11% and 15% respectively in 2016).

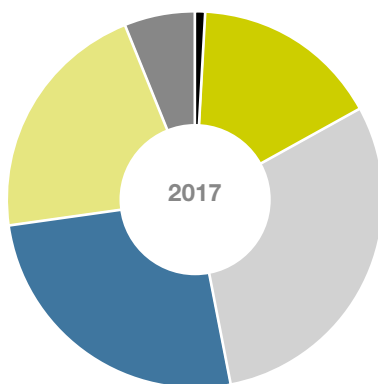
At the end of 2017, 26% of the workforce consisted of women. The nature of the work is increasingly concentrated on technical professions. This is the foremost reason for the present distribution of male and female employees. We are seeing a worldwide trend towards women more frequently seeking a job in more technically-oriented professions. In due course, we will be able to profit from this trend and, as a consequence, increase the proportion of female employees. In terms of responsible management positions, we have seen a positive trend over the last few years towards an increase in the number of female managers. We are doing everything we can to increase gender-diversity within the organization, and are focusing specifically on senior management positions. This group occupies an important position in the strategic development of TKH Group and has a 'sounding-board' function in relation to the Executive Board. And this group is also relevant in the context of succession planning. We are aiming for a balanced distribution between male and female candidates for participation in our Management Development program, on the basis of which we aim to encourage employees to advance through the company to a managerial or other key position within our organization.

In our organization men and women earn the same basic salary. We comply with social employment conditions for Dutch employees as stated in any collective bargaining agreement applicable to the industry as a whole. More than 78% of TKH's employees in the Netherlands are covered by a collective bargaining agreement. Agreement-related rules are applied in those subsidiaries where there is no collective bargaining agreement. We apply a similar policy for the foreign subsidiaries, in line with the 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 employer complies with statutory notice periods and other provisions.

WORKFORCE RATIO MEN-WOMEN in %

	2017		2016	
	Men	Women	Men	Women
Total workforce	74	26	74	26
Newly appointed	70	30	63	37
Departures	65	35	68	32

EMPLOYEES CLASSIFIED ACCORDING TO AGE in %



	2017	2016
< 20 years	1	1
20 - 29 years	16	16
30 - 39 years	30	29
40 - 49 years	26	27
50 - 59 years	21	21
59 >	6	5

SUSTAINABLE EMPLOYABILITY

Good working practice includes our ensuring that our employees can work in a healthy, vital, competent and productive way. We make resources available that can be used to improve the sustainable employability of employees. This includes attention for training and other courses, so that employees can be led by their ambitions. Our 'vitality program' helps to support our employees push the boundaries and improve their vitality. We offer our employees health checks that are carried out by an independent healthcare institute. The results of such checks will be discussed between the employee in question and specialists and, if required, a personal recommendation can be made on how to adapt health and lifestyle.

Sustainable employability focuses on all age groups within our organization. In addition to satisfied and motivated employees, sustainable employability is part of our continuing work to address absenteeism and to retain knowledge in our organization.

In our recruitment policy we aim to be able to offer people with a physical handicap an appropriate working environment. We fit out workstations with this in mind and remove hindrances wherever possible. We use job-carving initiatives to create a working environment for those with restricted access to the job market. In these initiatives, duties from one or more jobs can be merged to form a new job. This group of employees is supervised by an external job coach while the day-to-day management is under the auspices of a manager in the organization. We create work-experience places for the long-term unemployed or people re-joining the labour market. At the end of 2017, we employed 105 people with restricted access to the job market in our organization, a similar level to the previous year. We have set ourselves the target of at least keeping the number of people who have a disability or restricted access to the job market working in the organization at the current level.

PERFORMANCE REVIEWS

Each year the manager and employees discuss the employee in question's performance and career development in performance reviews. This allows us to keep an eye on the development potential of our employees and their career aims. At this point, 83% of employees have had performance reviews (2016: 80%). This means that we fell short of our target of completing at least 90% of performance reviews. One of the foremost reasons is the postponement of performance reviews due to fine-tuning job descriptions to the prevailing situations, so that they form the proper basis for the reviews.

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

TRAINING, KNOWLEDGE DEVELOPMENT AND KNOWLEDGE SHARING

Our employees are encouraged to develop themselves in the direction they aspire to. Education and training are an essential part of maintaining our knowledge level. We make training budgets available for further developing our employees' skills and to make them more employable. We organize in-company training with the support of external professionals so that this matches normal practice at TKH as closely as possible. New workers follow introductory programs, including product training courses. 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 have organized knowledge exchanges on financial topics and on current topics such as cyber security and international privacy legislation.

A Management Development (MD) program for young TKH managers with growth potential is established in collaboration with Nyenrode Business University in Breukelen (the Netherlands) since a few years. 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. The aim is to fill as many management functions as possible internally. In the year under review, some senior management functions were also filled through internal promotion or job rotation. This also includes former participants in the MD program.

In its search for new talent, TKH maintains close contacts with business schools and universities. We have close connections with educational institutes that provide



job-specific or management training courses. We offer work placements, thesis placements and minors in order to attract potential talents at an early stage. From August 2017 our subsidiary VMI started a two-year study program designed especially by and for VMI engineers. It offers participants the opportunity of expanding technical expertise, both on an individual basis and by means of group sessions. In addition to personal development, knowledge is also gleaned from technological developments.

The funds devoted to external training courses in 2017 were € 2.8 million (2016: € 2.5 million). Expressed in hours, our employees spent 22 hours on education and training (2016: 21 hours), whilst our target was at least 16 hours per FTE on a yearly basis. The target was therefore once again comfortably achieved.

We think it is important that our subsidiaries can learn from each other and we select individual subsidiaries or clusters of companies as a benchmark for the entire group. Every year, the best performing TKH company receives an award. The criteria required to be nominated include general financial performance, the innovative ability of the company, entrepreneurship shown and general business develop-

ments. In the year under review LMI Technologies ('LMI') received the TKH award for the second year in a row. LMI is a trend-setter with its 3D laser scan technology, which is used in fields such as inspection and quality-control systems. The R&D developments that have led to successful product development, the financial results and the successful geographic expansion into Asia and Europe were decisive factors leading to this success.

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

HEALTH & SAFETY

Good business practice also means being able to offer a safe, healthy working environment to our employees and to everyone concerned with the activities of the TKH Group. Our organization focuses on prevention of industrial accidents and fostering a professional safety culture. We do this by being transparent about accidents and near misses, so that employees are more aware of potentially-hazardous situations and can respond more rapidly. At the manufacturing companies, instruction is given on safety within the organization and there are clear procedures in respect of safe operating of machinery available. There is strict supervision of such aspects as the mandatory wearing of safety shoes and protective clothing. And we encourage employees to confront each other in relation to potentially dangerous situations. The manufacturing companies are certified for the OHSAS 18001 health & safety management system, thereby safeguarding health & safety processes in the organization.

Attention to safety has led to the number of registered industrial accidents falling from 99 accidents in 2016 to 66 accidents in 2017, despite a rise in the number of

employees in a manufacturing environment. This encouraging improvement of 33.3% reflects the maturity of the topic within our organization.

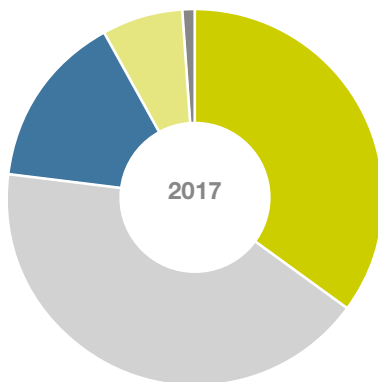
The percentage of absenteeism in 2017 was 3.35%, not far from the result for last year (2016: 2.98%) and still within our aim of a maximum of 4.0%. Absenteeism has risen principally due to long-term absence from work. In order to reduce absence of this type we have introduced the vitality program, among other things. Training courses are also offered for employees who want to stop smoking. Our anti-smoking policy is being rolled out in an increasing number of subsidiaries, in each case after consultation and with the support of the local Works Councils or staff representative bodies.

Sick leave management is primarily the responsibility of the line manager of the sick employee. During periods of absence the manager stays in frequent contact with the employee in question. Employees who report sick are immediately put in contact with the relevant occupational health and safety doctor or specialist. In this way, the employee in question can be given help with his or her complaint more quickly. In addition, we offer industrial



Nominees and winner 'Best company award' 2017

GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES in %



	2017	2016
Netherlands	35	35
Europe (other)	41	42
Asia	16	16
North America	7	6
Other	1	1

physical therapy in the context of prevention of absenteeism. We use workplace scans to optimize working conditions. We organize ergonomic lifting training sessions for employees whose work involves physical strain with a potential risk of physical injury. Training sessions on how to deal with absenteeism are organized for line managers, with a specific focus on mental and stress-related complaints. The aim of this is to flag signals at an early stage. We are seeing that the new privacy legislation is having an impact that the protection of privacy information is gaining the upper hand rather than the opportunity of discussing the nature of the absence and any possible supportive action available.

In the year under review, TKH once more organized a sports day for all employees and their family members. In total, over 2,350 participants took part in the sports day, representing 15 different countries. It was possible to participate in 40 different sports. The TKH sports day is held once every 3 years, with the aim of promoting sport and exercise, but also to strengthen the ties between the subsidiaries and TKH itself.

EMPLOYEE SATISFACTION

In order to measure our status as a good employer, we carry out employee satisfaction surveys (ESSs) about every three years. The surveys provide important 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 third-party market research agency. The total average score for employee satisfaction was 7.2 and was thus on a comparable level with that of 2016. The total TKH satisfaction score is slightly above the benchmark (7.1). Studies carried out in the year under review revealed safety to be a high scorer once more, on 8.3, followed by collaboration (7.6) and working conditions

(7.5). One item for improvement is communication with a score of 6.7. A response of 84% was relatively high, putting it far above the sector average of 70%. For us, this is a sign that our employees feel committed to the organization and understand the importance of such surveys.



Sports day 2017

PLANET

THE EFFECTS OF THE BUSINESS ON THE NATURAL ENVIRONMENT

By continuously improving environmental performance, we are attempting to force down the burden on the environment as much as possible. In order to have an insight into environment-related elements, all our manufacturing companies and subsidiaries performing connectivity related activities are certified for the ISO 14001 environmental management system.

At all our manufacturing companies, from the initial design stage, the raw materials and other materials used are chosen so that they have little or no harmful impact on the environment. And energy use during the manufacturing processes is analyzed and, where necessary, curtailed. The finished products satisfy the European REACH and RoHS directives. REACH is a European system for registering, evaluating (risks to people and the environment) and authorizing chemical substances in Europe. RoHS is a European directive that prohibits certain hazardous substances from being used in electrical and electronic devices.

ENERGY AND EMISSIONS

For years now we have had a program to reduce energy consumption in place, and we monitor the consumption of fuel (litres), electricity (KWh) and natural gas (m³). At 71% of the total KWh consumed, electricity consumption is the largest in terms of absolute volume, owing to its use in the manufacturing process, lighting, ventilation, air-conditioning and extraction systems. Gas represents 27% of the total KWh usage and is used for space heating in buildings and, to a much smaller extent (< 5%), process heating. In the recent past we have seen a trend towards further reduction in the consumption of diesel and fuel oil. This is still running



at just 2% of total consumption and is used primarily in Asia for heating systems in buildings.

TKH measures the impact of its activities using the Carbon Footprint according to the Greenhouse Gas (GHG) protocol. This is a measurement of greenhouse gases converted into CO₂ equivalents, with a distinction made between two main categories: direct and indirect CO₂ emissions.

- The category of direct CO₂ emissions includes fuel gas and other fossil fuels (natural gas, LPG, diesel), as well as, to a lesser extent, cars (leased cars and the company's vehicle fleet).
- Indirect CO₂ emissions are related to electricity purchased.

At 87%, indirect CO₂ emissions make up the greatest part.

Energy consumption (in KWh) relative to turnover fell by 3.3% in 2017 compared with the year before, and CO₂ emissions fell by 2.8%. If we compare energy consumption with the baseline year, 2015, then energy consumption in KWh was 0.8% higher and CO₂ emissions 0.9%. In 2017, too, investment in our manufacturing plants has had the effect of increasing our energy consumption, while this rise in consumption can still only minimally be

offset by the yield that these investments will realize. Among other things, this applies to the new factory for subsea cable systems in Lochem (the Netherlands), the new site for VMI's tire building systems in Leszno (Poland) and the new site of LMI in Vancouver (Canada). In that context, it is positive to note that we have seen a reduction in energy consumption in the year under review compared with the year before.

We have expanded our internal dashboard with Scope-3 tools, but have not yet implemented a scope expansion in relation to CO₂ emissions in our calculation model. In the year to come, we expect to be able to make a step forward in this respect.

The relevance of reducing energy consumption and CO₂ emissions was raised in the dialogue with our stakeholders. Our stakeholders have defined the reduction in CO₂ emissions as a material subject for the TKH sustainability policy and have pointed out that the SDG that has a bearing on reduction of energy consumption and promoting renewable sources of energy should be an area on which our attention is focused. We have taken this recommendation to heart by adding SDG 7 to our list of 'high-impact' SDGs.

FLEET VEHICLES

The 'greening' of our fleet will also help to reduce CO₂ emissions. For the new fleet, we are restricting allowable average CO₂ emissions to a maximum of 135 g/km. According to European directives, this must be reduced to 95 g/km by 2020, which has also been set as a target within the TKH Group. The average CO₂ emission in grams/km of TKH's existing Dutch lease fleet in 2017 was 102 g/km (2016: 102 g/km). The additions to the leased fleet in 2017 had average CO₂ emissions of 107 g/km (2016: 90 g/km). This increase is not least to do with the amendment to the amount for addition to taxable income of private use of a lease vehicle in place of the incentive for



hybrid vehicles. In our commercial vehicle fleet, 24.1% of the cars are hybrid and electric (2016: 21.5%).

REDUCING WASTE AND THE USE OF RAW MATERIALS

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

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

We have adopted two approaches to this:

- Quantitative: we aim to reduce the quantity of waste at the source structurally by increasing material productivity. By improving processes and by making innovations it will be possible to reduce waste streams.

- Qualitative: we aim to minimize the damaging effect of the waste. This entails combating the depletion of raw materials by using recycled materials and optimizing waste treatment by promoting greater collaboration throughout the value chain.

Total waste from the most significant raw materials, compared with total consumption of materials, was 5.0% in the year under review, compared with 4.7% waste in 2016. This percentage rise was primarily caused due to the commissioning stage where we were in, in respect of the production of certain new types of cable, including those for subsea cable systems, during the year under review, which was accompanied by learning-curve effects. This causes more waste than usual. If we disregard this factor, we have generated 4.4% waste compared with total consumption of materials, which is well within our objective of a maximum of 5%.

71.4% of the waste has subsequently been recycled, whereas our target had been set at 50%. Our copper supplier reprocesses pure copper waste into fully-usable copper. So the figure for copper was almost 100% waste recycling. Plastics that have become unusable during the cable production process but are suitable for recycling are offered to waste processing companies with a view to turning them into new raw materials. 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.

We are taking sustainability criteria into account in selecting raw materials and other materials, alongside price and quality, of course. Collaboration in the value chain also plays a large part in successfully introducing sustainable product innovations. We have become one of the chain partners in '100% circular use of materials in the underground infrastructure'. By working closely with partners in

the chain we will achieve the innovations that are necessary to fulfill our ambitions.

In the year under review, subsidiary TKF developed a new recyclable medium-voltage cable. Sustainability assumptions in that respect are that the cable is easy to dismantle, has a low environmental impact and the highest possible percentage of recycled material. It uses filler material from our own recyclables and recycled copper. An aluminium conductor was developed by adding aluminium from other applications. This was a challenge as aluminium, in contrast to copper, is not a pure element but an alloy. In order to optimize a conductor it is important to constitute precisely the correct alloy. The cable jacket is made of polyethylene made from recycled and up-cycled consumer articles. As components have more technical properties and need to meet strict standards for safeguarding quality and functionality, it becomes commensurately more complex to re-use materials. Ultimately reliability, safety and the quality of the cable are still the most important conditions in designing a cable.

We will also continue exploring possibilities for innovative manufacturing techniques and efficiency improvements in the value chain. We have conducted talks throughout the chain on how to make processes and products more sustainable, so that raw materials and energy can be used more effectively and, as a result, savings can be made.

PROFIT

A CONDITION FOR THE COMPANY'S SURVIVAL

TKH applies a strategy aimed at achieving 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 segments Telecom, Building and Industrial Solutions. TKH's most important financial objectives are announced in the 'Strategy & objectives' chapter and in the Report of the Executive Board.

TAXATION

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

We are transparent to the tax authorities in the countries where we operate. One of the elements of the BEPS project is that tax is paid where the economic activity and value creation mainly occurs. TKH's tax position is consistent with this and follows the normal exercise of its operations and reflects the strategy and the geographical spread of its activities. TKH does not use 'tax havens'. Furthermore, a basic premise is that TKH complies with legislation at home and abroad.

Since 2016, TKH has responded to the drafting of a so-called 'country-by-country' report (CbC). This CbC report has been made available to the tax authorities in the Netherlands and will be made available to the tax authorities in the countries in which TKH operates, through special channels.

The table below shows the tax paid in 2017 in each region. The amount of tax paid often differs from the calculated tax burden, due to advances paid that differ from the ultimate tax burden. Among the reasons for this might be temporary differences, deferred tax payments or uncertain tax positions.

In 2017, TKH paid a total of € 28.7 million in income tax. As at 31 December 2017, a balance of € 3.0 million in income tax is 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.

ACTUAL PAID TAXES IN 2017

In thousands of euros (unless stated otherwise)

	Netherlands	Europe (other)	North America	Asia	Other	Total
General information						
Aggregated revenues realized by the companies in the region without elimination of intercompany transactions	778,326	682,843	146,454	242,853	22,346	1,872,822
Tangible non-current assets	127,114	63,376	4,777	33,591	354	229,212
Number of FTE	2,030	2,423	414	943	90	5,900
Income taxes (paid) / received						
Income tax to be (paid)/received at 1 January 2017	-5,469	439	-375	-584	52	-5,937
Income taxes paid in 2017	-12,525	-10,079	-2,658	-3,155	-268	-28,685
Income tax to be (paid)/received at 31 December 2017	1,259	-2,121	-461	-1,038	-596	-2,957

POSITIONING

SAFEGUARDING OUR GOOD REPUTATION

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

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

SUSTAINABLE PRODUCT PORTFOLIO

TKH strives for a balanced product portfolio with innovative concepts tailored to customer demand. Sustainability criteria are becoming an ever-more relevant part of this. Process innovations, such as automation and robotic automation are interesting developments for us, which we can exploit with our technologies and use to differentiate ourselves in the market.

Based on our innovation objective, we are also devoting attention to sustainable innovation. We have set ourselves the target that at least 15% of our turnover should derive from innovations introduced in the previous two years. The proportion of innovations in turnover figures was 22.2%

in 2017 (2016: 19.0%). 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. Products are tested with the aim of making continual improvements on the basis of the specifications. The possible impact on health and safety is included in this. All cables for fixed installation in buildings - both in construction and civil-engineering - are CPR (Construction Products Regulation) certified in accordance with NEN8012. Among other things, this has led to product innovation in various types of cable.

SUSTAINABLE CUSTOMER RELATIONS

TKH constantly tries to exceed the customer's expectations by offering best-in-class solutions. Against that background, customer intimacy plays an important role within the organization. We know what our customers are concerned with and are able to provide tailor-made solutions. We would also like to learn how our customers rate us. In order to measure this, we carry out customer satisfaction surveys (CSSs) about every three years. Based on the outcomes of these surveys, we can take specific action to serve our customers even better. The average score from the CSSs in 2017 was 7.9, which is a fraction below the score in 2016 (8.0), but still above the benchmark score of 7.8. Account management and our service level scored highest with 8.4. Complaints resolution scored lowest with 7.0. At 30% (2016: 29%), the response to the CSSs was somewhat low.

Our service should also be of the highest possible quality. In spite of this, we cannot always avoid customer dissatisfaction. Where we receive complaints from customers, a proper, prompt complaints-resolution procedure has high priority. We set a target of resolving at least 60% of all complaints within one working week. In 2017, 80% of all complaints were resolved within 1 week

(2016: 70%). Obviously, we want to further reduce the number of complaints.

Our activities may cause nuisance in the surrounding area. We make every effort to prevent nuisance of any kind, or to keep this to a minimum. To that end we have implemented various internal guidelines and noise-reduction/smell-reduction measures. We register and administer environmental complaints, and notify those involved in good time on corrective or preventative measures. In the past year, we received four complaints about noise disturbance that we were able to resolve to the satisfaction of those who made the complaints.

CODE OF CONDUCT, INTEGRITY AND ANTI-CORRUPTION MEASURES

TKH values highly the integrity of its employees' conduct. Clear guidelines, checks on our methods and a 'zero-tolerance' policy in relation to fundamental issues such as fraud, bribery and corruption guarantee that we work in accordance with the right principles and in line with agreements. In order to ensure that each worker acts in accordance with the TKH behaviour guidelines, we have drawn up a code of conduct. The framework for this is formed by the OECD guidelines. Each employee must confirm in writing that he or she will follow the code of conduct. Exemplary behaviour is demanded from managers. Failure to adhere to the code of conduct or other unacceptable behaviour brings sanctions.

The management of each subsidiary is responsible for the implementation of the code of conduct within their organizations. The code of conduct has been signed by 98% of the total number of employees. We have not yet been able to reach the target of 100%, as we are active in some countries where the law does not recognize the concept of a code of conduct. We are in close contact with these subsidiaries and engage in dialogue with the local Works Council about the usefulness and necessity of a

code of conduct. The code of conduct can be downloaded from TKH's website.

Internal Audit monitors compliance with the code of conduct in all parts of our organization. Internal Audit also works in close collaboration with TKH's compliance officer and legal advisor. The Internal Control Framework is used to monitor and review any risks of bribery or corruption effectively. In the past period, agents' contracts have been revised and amended as a result of internal audits carried out in the context of the 'zero-tolerance' policy.

The code of conduct includes a whistle-blower scheme. All TKH employees may report suspicions of wrongful conduct within TKH. Such a report will not affect the position of the whistle-blower if the report is made in accordance with the procedure established for this purpose. Employees may consult a company confidence officer appointed for this purpose within their own organization or the TKH Group compliance officer. If a report is made to an subsidiary, this must immediately also be reported to the TKH Group's compliance officer, who is a central point of referral for integrity issues. The latter, acting together with the Executive Board, deals with the report and, if desirable, consults the company confidence officer of the subsidiary concerned. After the report has been investigated, the Executive Board makes a decision in consultation with the board of the subsidiary concerned or a representative of that board. No reports have been made in the context of the whistle-blower scheme in the year under review. The whistle-blower scheme can be downloaded from TKH's website.

CODE OF SUPPLY

We expect a zero-tolerance approach from our suppliers in respect of topics that affect us, too. Our requirements are set out in the code of supply and focus on aspects such as human rights, the environment, health, safety and ethical behaviour. Every supplier that provides goods worth in

excess of € 1 million must sign the code of supply. In the event of a supplier failing to comply with one or more of the requirements outlined 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, TKH will reconsider its partnership with that supplier. Local conditions affecting the supplier may, in specific cases, prevent the supplier from complying with certain requirements of the code. In such cases we will enter into talks to work towards a satisfactory resolution. The code of supply has been signed by 80% of the suppliers who come under the scope. It is our aim to have all suppliers that come under the scope sign our code. The reasons that we are not yet at that stage include the fact we have seen a steep rise in the number of strategic suppliers. After the code of supply has been signed, there must be an assessment of the supplier in question to review items stipulated in the code. In the year under review, 78% of the suppliers that have signed our code of supply within the last two years have been assessed. Our aim is that an assessment must be carried out within two years of signing the code of supply. Within the organization, this has been given high priority and, accordingly, has been identified as one of the areas of Internal Audit's working program. The code of supply can be downloaded from the TKH website.

HUMAN RIGHTS

Both our code of conduct and our code of supply include terms relating to respecting and safeguarding human rights. In this respect we adhere to the OECD guidelines as a reference framework on the basis of which we can quickly identify possible risks. These OECD guidelines refer not least to the Universal Declaration of Human Rights, which states, among other things, that all parties in society, including companies, are obliged to respect and safeguard human rights. When we assess suppliers in the context of our code of supply we ask them whether they have a policy statement on human rights based on international principles, such as

the OECD guidelines. We also ask whether they use a management system for health and safety at work. We discuss areas where discrimination may arise, the right to social security and the risk of child labour in the chain. The aim of our policy is not to tolerate violation of human rights of any kind. The assessments we have already carried out with suppliers have not revealed any violations of human rights.

In the year under review, the right to privacy was named as a specific topic, not least with a view to the new European privacy legislation. Privacy is an important component of human rights. People must be able to live in freedom, without everyone knowing everything about them. The privacy legislation gives people more rights, and organizations more responsibilities to exercise care with personal information. In the year under review we have analyzed what sort of privacy data we have on record within our organizations. Learning sessions were organized on the subject and guidelines were drawn up to prepare our subsidiaries for the change in privacy legislation.

Internal Audit covers this aspect as part of its auditing activities and 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. Internal Audit also has a pioneering role in monitoring the correct implementation of the guidelines relating to the changes in privacy legislation.

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.



One of the charities: Duchenne Heroes

SANCTIONS

In the event that sanctions are imposed on our company, we will explain the cause and the corrective actions that have been taken. In 2017, we did not incur any sanctions.

COMMUNITY INVESTMENTS

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

In 2017, the TKH Group spent € 0.4 million on sponsorship and donations to charity. This was 0.4% of its net profits before non-recurring income and expenses (2016: 0.4%).

CSR OUTLOOK

In May 2018 the European General Data Protection Regulation will take effect. The regulation will have an impact on the way in which organizations deal with such issues as personal information, and sets restrictions on the transfer of such personal information. In the first six months of 2018, the implementation of measures to comply with this legislation will be given the necessary attention. Among other things, there will be internal themed sessions to achieve this.

In preparation for external validation of CSR data in 2018 we will carry out pilot audits of non-financial data, including the realization of targets in the field of corporate social responsibility.

In the coming year we will, again, help to deliver CSR information to third-party information platforms. In that respect we take the position that it is best to be very selective in terms of promises relating to divulging information on third-party platforms.

In the year under review we have assessed in which of the sustainable development goals (SDGs) we can have the greatest impact. In the coming year we will investigate the additional action we need to take to make a proper contribution to the SDGs.

Further to the successful stakeholder dialogue in the year under review we will also organize a similar meeting in 2018, in which we will, once more, tackle current issues. We view the stakeholder dialogue as an important opportunity for communication, one where we can review our CSR policy with the target groups important to us. We also get the necessary input that spurs us on to

improvements and innovations in our policy and our approach to it.

In relation to new initiatives in the value chain we will consider participation only in those initiatives that touch directly on our activities. We will intensify existing value chain initiatives in the year to come.

As far as our employees are concerned, we will continue to do our utmost to provide them with an inspiring, challenging and safe environment in which to work. We will keep devoting attention to vitality and health, and intend to roll out the vitality program that has already been successfully implemented in a few subsidiaries to other subsidiaries.

In the coming year we will again organize mini-master classes for strategic middle-management, in collaboration with recognized business schools. Short teaching modules will tackle specific subject matter. And the Management Development program will be followed up.

Outlook

Barring unforeseen circumstances, we expect the following developments for each business segment in 2018.

TELECOM SOLUTIONS

We expect continued growth in the investments in optical fibre systems in Europe and China. Our investments in market penetration in Europe in recent years mean the growth potential for TKH will be primarily focused in Europe. The capacity expansions will have only a limited effect in 2018 and we expect to see the full impact of these expansions from 2019 onwards. We expect continued growth in this segment in 2018.

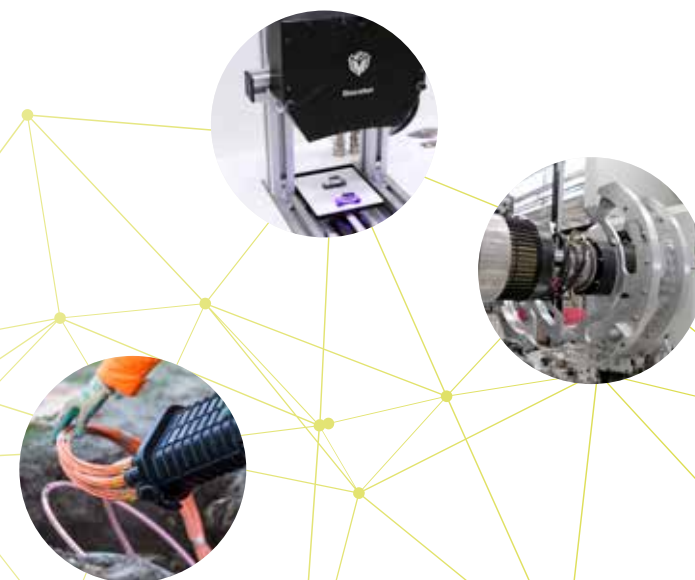
BUILDING SOLUTIONS

In the sub-segment connectivity systems, TKH will be able to realize continued growth in the market segment Marine & Offshore due to the contribution from the subsea cable system activities. The roll-out of the CEDD technology for airfield ground lighting is on schedule and we expect to realize additional turnover on this front too. Despite the fact that 2018 will still see start-up costs, we expect costs to normalize further. In the sub-segment vision & security systems, we are seeing reluctance to invest by consumer electronics manufacturers in the vertical growth market Machine Vision. TKH still expects to be able to continue to expand its market share with advanced technology and realize further growth. We expect an improvement in turnover and result in the Parking segment. The restructuring implemented in 2017 will also contribute to an improvement in results.

INDUSTRIAL SOLUTIONS

The investments in the industrial sector, linked with robotization and automation, are increasing and we therefore expect to be able to realize growth in the sub-segment industrial connectivity systems. Due to the available capacity, this growth will be primarily seen in the second half of the year. The order book in the sub-segment manufacturing systems was better filled at year-end 2017 than a year earlier. Increased order intake in 2017 combined with new machines and the increased penetration among the top-5 tire manufacturers will require a relatively high level of engineering activity, but also offer perspective for growth. The expansion of our production capacity we realized last year, combined with a normalization of the share of engineering activities, will result in higher production levels and consequently an increase in the result.

As usual, TKH will give a concrete outlook for the full-year 2018 profit at the presentation of its interim results in August 2018.



Governance

TKH Group NV 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 for compliance with the Corporate Governance Code ('Code').



MEMBERS EXECUTIVE BOARD



J.M.A. (ALEXANDER) VAN DER LOF MBA (1958)
Chairman and CEO

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



E.D.H. (ELLING) DE LANGE MBA (1965)
Member and CFO

Elling de Lange 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 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.



A.E. (ARNE) DEHN (1969)
Member

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

Resigns from the Executive Board at the end of the General Meeting of 3 May 2018.

MEMBERS SUPERVISORY BOARD



Mr. A.J.P. (Antoon) De Proft MSc
(1960), *chairman*
Belgian nationality

- 2014 first appointment
- 2018 term limit
- Chairman Selection and Appointment Committee

Current position
CEO & President Septentrio
Satellite Navigation

- Other positions**
- Chairman Executive Board IMEC
 - Chairman Executive Board Quest For Growth
 - Managing Director ADP Vision



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

- 2006 first appointment
- 2018 term limit
- Chairwoman Remuneration Committee
- Member Selection and Appointment Committee

Current positions
Professional supervisor /
independent director - former COO
Schiphol Group

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



Mrs. C.W. (Carin) Gorter
(1963)
Dutch nationality

- 2017 first appointment
- 2021 term limit
- Member Audit Committee

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

- Other positions**
- Member Supervisory Board TVM Verzekeringen
 - Member Supervisory Board Basic Fit
 - Member Monitoring Committee Accountancy
 - External member Audit Committee Ministry of Justice & Security



Mr. P.P.F.C. (Philip) Houben
(1960)
Dutch nationality

- 2009 first appointment
- 2021 term limit
- Chairman Audit Committee

Current positions
Former chairman of the Executive
Board Wavin NV

- Other positions**
- Chairman Supervisory Board NV HVC
 - Member Foundation Priority Antea Participaties



Mr. R.L. (Rokus) van Iperen
(1953)
Dutch nationality

- 2011 first appointment
- 2020 term limit
- Member Remuneration Committee

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



Mr. J.M. (Mel) Kroon MBA
(1957)
Dutch nationality

- 2017 first appointment
- 2021 term limit

Current positions
Chairman Executive Board TenneT
Holding B.V. and additional
functions qualitate qua:

- Chairman Supervisory Board TenneT TSO GmbH
- Chairman Supervisory Board NOVEC B.V.
- Member Supervisory Board EPEX SPOT S.E.

- Other positions**
- Member Supervisory Board Koole Terminals Holding B.V.
 - Board member Dutch-German Chamber of Commerce
 - Member Supervisory Board Coöperatie VGZ

Report of the Supervisory Board

The Supervisory Board supervises 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 supports the Executive Board with advice and supervises its relationship with 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 Supervisory Board is composed in such a way that the knowledge, experience and insights with regard to the themes at TKH as well as the markets and activities relevant to TKH are well represented. 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, as laid down in the Supervisory Board diversity policy. The above-mentioned elements are included in the profile drawn up by the Supervisory Board. The Dutch Management and Supervision Act (Art. 2:166BW) stipulates a requirement to make efforts towards achieving

a quota of at least 30% women and 30% men in the Supervisory Board, in so far as these seats are occupied by natural persons. The Supervisory Board currently (temporarily) consists of six members, two of which are women, so that the target percentage is achieved. When vacancies (excluding reappointments) arise, the quota will be one of the points of attention. The decisive factor when filling vacancies is the quality, expertise and experience of the candidate. 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 and including 2.1.9 of the Code.

INTRODUCTION PROGRAM

In the reporting year, two new members were appointed to the Board. An introduction program has been drawn up for them that takes account of the competences and expertise

that the members concerned represent on the Board. The introduction program partly focused on the general strategy, the financial reporting and the organizational structure. Also the core technologies and commercial aspects are explained partly through company visits. The cultural aspect was also covered during these company visits. The Board member appointed to the Supervisory Board as financial expert received an extensive introduction to financial reporting and principles, taxes and the risk-management system during a session with TKH's CFO, the Director Finance & Control, the Director Internal Audit and the Senior Tax Manager of TKH. There was also a separate session with the external auditor. The new members of the Supervisory Board considered the introduction program to be very helpful and valuable.

CULTURE

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

responsibilities are assigned as far down as possible in the organization. The Executive Board gives the example and provides guidance on the proper standards and values within the organization. One way the Supervisory Board maintains supervision on the cultural aspect is to carry out company visits to gain insight via the local management into the day-to-day operations and in the organization and the management of risk. TKH applies different principles 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. The meeting with the Central Works Council is also a key element when assessing the culture.

MEETINGS DURING THE YEAR UNDER REVIEW

In the year under review, five regular and two extra meetings were held, all of which were attended by the Executive Board. Also in the reporting year, there were two closed meetings. At one regular meeting, one member of the Supervisory Board was unable to attend due to urgent reasons. In the case of inability to attend, the member of the Supervisory Board in question informs the chairman before the meeting of her/his views on the subjects to be discussed. Once the meeting has concluded, the absent member of the Supervisory Board is informed in person about the matters discussed. During the year under review, there were no subjects on the agenda that could potentially give rise to conflicts of interest. The discussion of the 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 and on specific subjects that are relevant for discussion at a certain moment.

The year under review was dominated by a further tightening of the focus on the development and positioning of the TKH core technologies. For the Supervisory Board, technology development was an important area of attention in its meetings. By means of 'deep dives' on the vertical growth markets, an in-depth insight was gained into the strategy, positioning, technological development, long-term value creation and possible risks. In the year under review, 'deep dives' were given of the vertical growth markets Parking, Care, Machine Vision and Airport Solutions within the vertical growth market Tunnel & Infra. The Supervisory Board was informed of the general market developments in the relevant growth markets, the value proposition of TKH in this, the challenges that apply to TKH and the further execution of the strategy.

For Parking, specific attention was paid during the year because of the choices made for upgrading the technology for parking guidance systems and the organizational adjustments for further efficiency improvement.

During the year under review, the Supervisory Board dedicated two extra meetings to assessing implementation of the strategy and growth scenarios and related strategic (investment) programs. This involved focusing on Airfield

Ground Lighting, within the Tunnel & Infra vertical growth market, and Machine Vision.

In May 2017, a visit was made in this context to the Machine Vision companies, LMI and Allied Vision in Vancouver (Canada). This gave the Supervisory Board an extensive opportunity to gain greater insight into the different technological developments, the markets they serve, and the competitive playing field, the possible risks as well as the way in which the risks are managed. The newly developed innovative camera platform with 'embedded vision' for the automation and inspection of production processes was explained, as was the leading 3D camera technology for consumer electronics manufacturers. The Board found the enthusiasm and dedication of the management and the employees during this visit very inspiring.

The development of the results within Building Solutions was given extra attention during the year under review due to the start-up costs of various projects in the context of preparing for further growth, and with an eye on the highly innovative character of the projects. Attention was also given to a sharper focus on the core activities and related actions for both the short-term and the medium-term. The Supervisory Board observed that the implementation of the strategy in conjunction with the action plans was executed well and is on schedule.

ATTENDANCE PERCENTAGE OF MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

MEETING	H. Hazewinkel ¹	M. van Lier Lels	P. Houben	R. van Iperen	A. De Proft	C. Gorter ²	M. Kroon ²
Supervisory Board	2/2	7/7	7/7	6/7	7/7	5/5	5/5
Audit Committee	2/2		4/4			2/2	
Remuneration Committee		1/1		1/1			
Selection and Appointment Committee	1/1	1/1					

¹ up to and including 3 May 2017

² as from 3 May 2017

For the Board, the organic growth in the reporting year is a confirmation of the potential of the TKH's 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 fixed assets. It may be concluded that the various projects are organized in a sound way, partly on the basis of a clear R&D roadmap.

In the year under, acquisitions remained limited to the acquisition of Redline from Canada and Jacques from Australia. The Supervisory Board approved these acquisitions as they reinforce the strategic activities of TKH in the vertical growth markets. Although the acquisition of Redline concerns a backward integration, the Supervisory Board recognizes its strategic importance in terms of R&D developments and ensuring the supply of precision casings for 3D technology. The international footprint for mission critical communication systems has been increased by the acquisition of Jacques to include Australia and South East Asia, which also gives us access to other end markets.

The acquisition of the remaining minority interest of 26% in Commend International has also been received positively by the Board because of its strategic relevance in the further technological development in the field of mission critical communication systems so that the leading market position in various vertical growth markets can be further developed.

In the context of strategic reorientation, with TKH focusing more specifically on the four core technologies together with the seven vertical growth markets, the strategic interest of 5.06% in Nedap was divest of in the year under review. The interest in Nedap was taken at the time because of its technological know-how. However, in the intervening seven years, TKH has developed further into a technology company with a major focus on R&D. As a result, TKH has realized the desired technological growth spurt itself. The



Supervisory Board recognizes that the interest in Nedap has lost most of its strategic relevance and therefore agreed that, once a suitable opportunity presented itself, the interest would be sold.

In the context of the strategic focus regarding the TKH portfolio, there were discussions about terminating less profitable activities that do not sufficiently reflect the core technologies of TKH, and further steps were taken.

The content of the press releases surrounding the full year and interim figures are discussed with the entire Supervisory Board prior to publication. The content of the press releases regarding the trading updates is discussed with the chairman of the Supervisory Board.

CLOSED MEETINGS

The Supervisory Board met three times in the absence of the Executive Board. In March 2017, 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 after which the Supervisory Board approved the proposal. In May the outcome of an external review of the remuneration to market conformity for the

members of the Executive Board was explained. In December 2017, the evaluation of the performance of the Supervisory Board, its committees and its individual members, as well as the cooperation with and functioning of the Executive Board, were discussed.

REGULAR MEETINGS

In the regular meetings, the most prominent repeating agenda items are financial developments, Investor Relations, acquisition possibilities, investments and divestments, and technological, organizational and market developments. With a view to monitoring the strategic roadmap and the progress of strategic initiatives, the Executive Board provides an explanation at every meeting of the 'strategic scorecard'. This includes explanations of the 'high-lights' and 'low-lights' per Solution segment, as well as the related action points for the short- and medium-term. In the year under review, recurring themes were the progress on the start-up of the production of sub-sea cable systems, start-up of the plants for the production of tire building systems and cable assembly systems in Poland, and the program to increase profitability at a number of companies to speed up the rate of improvement of Return on Sales (ROS) over the medium-term.

In the meeting in March, the appointments and reappointments were discussed in the Supervisory Board and it was decided to submit the candidates to the General Meeting of Shareholders. The 2016 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 the assignment of the external auditor to audit the 2018 financial statements. Further, the dividend proposal as it was submitted for adoption to the General Meeting of Shareholders ('AGM') was discussed.

Topics discussed during the meeting in May covered (profit) developments in the first quarter and the preparations for the AGM. The (result) development over the second quarter as well as the interim figures were discussed in the August meeting. The Audit Committee reported on its meeting. The strategic developments within the vertical growth market Parking were explained.

In the meeting in October, the (result) developments over the third quarter were discussed and the strategic developments in the vertical growth market Care were explained. In addition, the revised Corporate Governance Code was discussed. It was established which best-practice provisions will be complied with and which will be subject to deviation. A comprehensive explanation of the Corporate Governance Code is described on pages 78-83. The HR developments were explained, with a focus on 'succession planning', management development and employee satisfaction. Attention was also paid to the cultural aspect within the group. The organizational structure was explained, including in relation to the way in which the Executive Board monitors the set-up and functioning of the internal risk-management systems. The 2018 budget and the 2018 investment plan were discussed and approved at the meeting in December. The progress made in the area of Corporate Social

Responsibility (CSR) was also elaborated on. The Board listened to an explanation of the steps taken during the year under review as well as of the focus areas for the coming years. The Supervisory Board recognizes the relevance of CSR and observes that CSR is well embedded in the TKH organization and that it is a full-fledged item of the strategic agenda. This meeting also discussed the strategy 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 staff employability and the mutual cooperation between subsidiaries. In the selection process for new Supervisory Board members, a delegation from the Central Works Council held talks at the start of the year with the prospective candidates. The Board members concerned experienced this meeting as very helpful and constructive, which gives an idea of the rapport with the Central Works Council and its approach. 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.

COMMITTEES

TKH's Supervisory Board has three committees: the Selection and Appointment Committee, the Remuneration Committee and the Audit Committee. The committees all have their own set of rules defining their conduct. These rules, which have been updated in view of the revised Code, ensure among other things that the provisions laid down in the Code are complied with. These committees have the task of laying the groundwork for the decision-making process of the Supervisory Board.

SELECTION AND APPOINTMENT COMMITTEE

In the year under review, there was a change in the Selection and Appointment Committee due to the resignation of Mr. H.J. Hazewinkel from the Supervisory Board. The position has been filled by Mr. A.J.P. De Proft. Since May 3, 2017, the Selection and Appointment Committee comprises Mr. A.J.P. De Proft (chairman) and Mrs. M.E. van Lier Lels. 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 Appointment Committee carries out individual performance review meetings with the members of the Executive Board once every year. The Selection and Appointment Committee also oversees the Executive Board in terms of selection criteria and appointment procedures for the company's senior management. In the year under review, the Selection and Appointment Committee focused closely on the nomination of candidates relating to the vacancies arising in the Supervisory Board, and held talks with the prospective candidates to this end. The Committee also prepared the evaluation of the Supervisory Board and the Executive Board. The Selection and Appointment Committee met once during the year under review, discussing among other things the nomination of candidates in the context of open vacancies, and preparing the evaluation of the Supervisory Board and the Executive Board. The Selection and Appointment Committee reports the most important results of each of its meetings to the Supervisory Board.

REMUNERATION COMMITTEE

The Remuneration Committee comprises Mrs. M.E. van Lier Lels (chairwoman) and Mr. R.L. van Iperen. The Committee advises the Supervisory Board on the remuneration policy for the Executive and Supervisory Boards and makes proposals in this regard. The Remuneration Committee

reports the most important results of each of its meetings to the Supervisory Board. The Remuneration Committee met once during the year under review. During the meeting, the remuneration policy and the achievement of the targets of the Executive Board were evaluated and subsequently discussed with the chairman of the Executive Board. The targets for the next financial year were discussed and adopted. On the basis of the achieved targets, the outcome was presented to the full Supervisory Board and decisions on the remuneration were made at the closed meeting of the Supervisory Board in March 2017.

AUDIT COMMITTEE

Due to the resignation of Mr. H.J. Hazewinkel in the year under review, Mrs. C.W. Gorter joined the Audit Committee. As per 3 May 2017, the Audit Committee comprises Mr. P.P.F.C. Houben (chairman) and Mrs. C.W. Gorter, with the latter of these two considered the expert in drawing up and auditing the financial statements, in accordance European Audit Directive 2006/43/EC. 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; and the key findings of the Audit Committee. The Audit Committee had three regular meetings during the year under review. These regular meetings were held in the presence of the external auditor EY, the CFO, the Director Internal Audit and the Director Finance & Control of TKH. At the initiative of TKH, the Senior Tax Manager of TKH was invited to a meeting for an explanation of the general fiscal developments as well as of fiscal issues specifically applying to TKH, including the new innovation box regime. In April, and extra Audit Committee meeting was held in preparation for the AGM.

An ongoing consideration for the Audit Committee is the company's internal risk management and control system. Subjects that were also dealt with were the possible impact of the new IFRS 15 standard and impairment analyses. Also during the reporting year, cyber security and cyber risks were considered, as was the implementation of an updated IT and Security Policy with a specific focus on cyber crime and related IT risks. In 2017, a TKH-wide IT audit was initiated. The Director Internal Audit provides each meeting with feedback on the progress and results of these audits, as well as the follow up of the findings of these audits, to ensure that the Audit Committee's supervision of the applicable information and communication technology as well as their possible risks is properly embedded. The Audit Committee concluded that the topic of cyber crime and cyber risks has a high priority within TKH, as witnessed in the execution of the IT audits and the implementation of an updated IT and Security Policy. The issue has also been thoroughly embedded in the risk-management system.

In addition, at each meeting, the Director Internal Audit provides an explanation of his findings in relation to the audit activities carried out.

The Audit Committee discusses with the external auditor the audit plan on the basis of which the external auditor carries out his 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 main themes discussed here are IT, investments in subsea, financial developments within the segment parking solutions, commission payments to agents and the implementation of IFRS 9 and 15.



Visit to Allied Vision in Canada

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 engagement, 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 Board. 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. 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 to the external auditor.

Due to the increase in audit activities by Internal Audit, TKH expanded the Internal Audit function by appointing an extra Internal Auditor in 2017.

The chairman of the Audit Committee also held a one-on-one discussion with the external auditor in accordance with



Visit to LMI Technologies in Canada

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 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, role of the chairman and relations with the Executive Board. Although the composition of the Board changed last year, as did the chairmanship, it has been concluded that the Supervisory Board functioned well, both in collective terms and each individual separately. 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. The interest was clearly expressed to plan frequent company visits for the Supervisory Board, so members can gain proper insight into the technological developments and the markets thus served. During this 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 assessed. It was established that all members of the Supervisory Board were independent.

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

SCHEDULE OF RETIREMENT

At the end of the General Meeting of Shareholders of 3 May 2018, Mr. A.J.P. De Proft MSc and Mrs. M.E. van Lier Lels will step down in accordance with the schedule of retirement. According to the by-laws of the Supervisory Board and the articles of association of TKH, Mr. De Proft may be reappointed for a further period of four years. Mr. De Proft has indicated that he is available for reappointment, once more in the role as chairman. For Mrs. Van Lier Lels, the statutory mandated term of office has expired. The successor of Mrs. Van Lier Lels was appointed last year. During her 12 years as a member

of the Supervisory Board at TKH, Mrs. Van Lier Lels fulfilled this role with great commitment and dedication, as well as that as chairwoman of the Remuneration Committee and member of the Selection and Appointment Committee. In doing so, the Board as well as the company have been able to benefit from her extensive knowledge as COO in an international company, her expertise in the field of HR and operations as well as her experience in listed companies. The Supervisory Board expresses its sincere thanks for this. The Central Works Council was notified of the reappointment of Mr. De Proft and the related profile. The reappointment is subject to the right of recommendation from the Central Works Council, as described in Section 19 (8) of the company's articles of association. The Central Works Council has stated that it does not wish to invoke its right of recommendation.

The 2018 General Meeting of Shareholders will be informed about the reappointment of Mr. De Proft and given an opportunity to recommend to the Supervisory Board candidates for nomination to the Supervisory Board that would satisfy the relevant profile. The Supervisory Board will recommend the reappointment of Mr. De Proft to the AGM. If the AGM decides to reappoint Mr. De Proft, then after the AGM the Supervisory Board will once again comprise five members.

CHANGES TO THE EXECUTIVE BOARD

The Supervisory Board nominates Mr. H.J. Voortman for appointment as per 3 May 2018 as member of the Executive Board of TKH by the AGM. Currently, Mr. Voortman is responsible within TKH for VMI and is a member of the Management Board of TKH. The appointment is for a period of four years from the time of conclusion of this AGM until the conclusion of the AGM of 2022.

Besides, Mr. A.E. Dehn, currently member of the Executive Board, has announced that he will not consider another

term as from the AGM 2019, and will pursue a new role outside TKH Group. In mutual consultation, it has been decided that Mr. Dehn will resign from the Executive Board at the forthcoming AGM. We would like to thank Mr. Dehn for his valuable contribution in the past seven years within TKH, especially for the development within the business segment Building Solutions.

ANNUAL FINANCIAL STATEMENTS FOR THE 2017 FINANCIAL YEAR

The Report of the Executive Board and the 2017 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, on the basis of its audit, an unqualified auditor's report on the financial statements. The Supervisory Board has discussed the financial statements with the Executive Board in the presence of the external auditor, and subsequently approved the financial statements on 5 March 2018. The Supervisory Board submits the financial statements for the 2017 financial year to the AGM and recommends adopting the financial statements.

The Supervisory Board is of the opinion that the financial statements constitute a sound basis for the account given by the Executive Board of its management and by Supervisory Board 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 policy pursued and the Supervisory Board in respect of the supervision conducted.

FINALLY

We look back on 2017 as a year in which we invested considerably in the future, focusing on the further development and positioning of TKH technologies in key growth markets. It was a demanding year in which important steps were again taken towards achieving the stated growth objectives in the context of long-term value creation. The start-up costs in a number of segments meant that the increase in turnover was not fully reflected in the total TKH result.

It is inspiring to see with which professionalism and effectiveness the organization and its people know, how to give direction to these ambitions. The commitment, involvement and quality of the employees within TKH are of decisive importance for the successes at TKH. We sincerely express our appreciation and thanks to the Executive Board and all employees for the special efforts they have made over 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, 5 March 2018

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. The remuneration policy is formulated by the Remuneration Committee and approved by the Supervisory Board.

The remuneration policy was adopted by the AGM of 2005. Any future significant policy changes will be submitted to the AGM. Note 34 of the financial statements include a schematic overview of the remuneration of the Executive Board.

REMUNERATION POLICY

The policy aims at providing a competitive compensation package to attract, motivate and retain qualified managers for a 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. 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 analysis 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, 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 Remuneration Committee takes note of the individual directors' 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 market conformity. The most important conclusion from this study was that the remuneration policy with respect to the TRI, STI and LTI complies well with the objectives set. Due to the growth of the company, the peer group of the benchmark has been adjusted with a focus on the AMX companies of Euronext Amsterdam, taking into account the complexity and size of the benchmarks in relation to the size and complexity of TKH. The former peer group will be used as an extra check

on developments that are specific to the business. Based on the external review, the TRI was adjusted to market conformity for the members of the Executive Board.

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. As a result of the results of the external review, an increase in the basic salary (TRI) was implemented in 2017.

PERFORMANCE BONUS (SHORT-TERM INCENTIVE: STI)

Variable remuneration represents an important component of the remuneration package for the Executive Board. The performance bonus is related to realize targets. Annually, the targets and criteria, on which the performance bonus is based, are set. The amount of the performance bonus is determined by the extent to which targets and criteria are met. The maximum performance bonus has been set at 60% of basic salary (TRI). The Remuneration Committee sets the performance bonus amount on the basis of the targets and criteria that have been met. The realization of 50% of the maximum bonus is based on EBITA-targets and 30% is based on autonomous revenue growth targets. The other 20% of the maximum bonus is determined by the realization of personal targets and criteria. Realization 'at target' results in a bonus of 40% of basic salary (TRI). The Supervisory Board has the discretionary power to depart from the set targets where exceptional circumstances arise.

The realization of the targets and criteria for 2017 resulted in 55.0% of the maximum performance bonus of basic salary (TRI) for Messrs. Van der Lof and De Lange and 51.4% for Mr. Dehn, based on a realization of 91.7% of the maximum performance bonus for Messrs. Van der Lof and De Lange and 85.7% of the maximum performance bonus for Mr. Dehn.

The Supervisory Board has the discretionary power to recover from the Executive Board the variable remuneration granted that is based on false (financial) data. Payment to the members of the Executive Board is made under the condition of accuracy of the relevant (financial) data. 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. There is no change of control clause included in the employment contracts of the members of the Executive Board.

SHARE SCHEME (LONG-TERM INCENTIVE: LTI)

A share scheme which provides for a long-term bonus scheme is in force in connection with long-term targets. The scheme enables members of the Executive Board to acquire shares free of charge in return for which the members of the Executive Board are required to purchase for own account the same number of shares for the price quoted on the stock exchange at that moment. The development of ROS and ROCE as well as the share price development in comparison to the -for TKH- relevant AMX-index, result in share allotment. The long-term targets for the Executive Board relate to the TKH-objectives set in the report of the Executive Board.

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 2017, Mr. J.M.A. van der Lof has been allotted (depository receipts of) shares with a value of € 448,940, to Mr. E.D.H. de Lange (depository receipts of) shares with a value of € 336,696 and to Mr. A.E. Dehn (depository receipts of) share with a value of € 275,878, where the same number of (depository receipts for) shares as granted to the Executive Board must be purchased simultaneously by them for their own account. These share transactions will be executed after the publication of the annual results at the average closing price

of the three trading days as from the date of publication of the annual results. The table in the financial statements, note 34 -remuneration key management-, include the value of the allotment that has been grossed for income tax purposes.

PAY RATIO

Based on the fixed average annual salary per FTE within TKH in the Netherlands and the fixed annual salary of the CEO of TKH, the pay ratio is calculated. The outcome for the pay ratio for 2017 is 11.9.

PEER GROUP

The Remuneration Committee and Selection and Appointment Committee are consulting independent remuneration advisors to match remuneration data from companies from the peer group with remuneration data of TKH. The labour market peer group has been adjusted as a result of the external review, and consists of the AMX companies of Euronext Amsterdam.

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 16 and 34 of the financial statements.

PERSONAL LOANS

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

REMUNERATION POLICY SUPERVISORY BOARD

The AGM adopted the remuneration of the members of the Supervisory Board in 2015. The remuneration of a member

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

Corporate Governance at TKH

TKH Group NV 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 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. Due to the revised Code and revised primary and secondary legislation, a change to the articles of association will be submitted to the 2018 AGM.

The main outlines of TKH's Corporate Governance structure, as well as compliance with or derogation from the principles and provisions, will be discussed in the 2018 AGM. If significant changes in the structure and/or in the compliance with the Code subsequently occur, these will be submitted to the AGM for discussion as a separate item on the agenda.

REVISED CODE

On 8 December 2016, the Monitoring Committee Corporate Governance Code published the revised Code. Dutch listed companies must report on the compliance with the revised Code in the report of the Executive Board for the 2017 financial year as per Art. 2:391 (5) of the Dutch Civil Code.

In preparation for this, TKH has commissioned a restricted committee to analyze the changes in the Code relative to the previous Code, their implications for TKH and the way in which compliance with the new provisions can be ensured. Some provisions had to be dealt with more in-depth for the decision-making, partly because they have an impact on existing provisions of the articles of association or because they were new areas of attention in the Code. A number of meetings took place with TKH's external legal advisor about the Code.

The general conclusion is that TKH complies in general with the principles and provisions of the Code.

The new areas for attention stated in the Code, such as long-term value creation and culture, have been embedded within TKH for many years already, and have been outlined in the report Executive Board for a long time now. However, carefully considered decisions have been made to deviate from specific provisions of this Code. This section provides justification for this.

The measures that were necessary for the optimal implementation of the revised Code have been implemented. All rules for the Supervisory Board and its committees have been amended, as well as the rules for the Executive Board. The other regulations, such as the code of conduct and whistle-blower scheme, have also been reviewed. A proposal to amend the company's articles of association has been further detailed, as has that of Stichting Administratiekantoor TKH Group.

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 in the report of the Executive Board, we refer to the report of the Executive Board for an explanation of these provisions.

2 EFFECTIVE MANAGEMENT AND SUPERVISION

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.
- In addition, the Executive Board is also responsible for compliance with all relevant legislation and regulations, for managing the risks associated with the company's activities through the adequate 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.

Composition

- 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. We strive to ensure that there is a good balance represented within the Executive Board in terms of diversity of background, skills, nationality, work experience, age and gender. There is a best effort

obligation for larger companies achieving a quota of at least 30% women and at least 30% men for the Executive Board, insofar as these seats are occupied by natural persons. Currently, the target percentage is not achieved and the Executive Board consists of three men. In the case of upcoming vacancies, the gender target percentage will be one of the points of attention in which it is of decisive importance to fill vacancies that the quality, expertise and experience of the candidate are in line with the profile of the position. We strive to increase gender diversity within the organization and focus specifically on senior managers. This group fulfills an important function in the strategic development of TKH Group and has a sounding board function towards 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 created an internal division of duties, which indicates the responsibilities of individual members for specific functional and business areas.
- The Executive Board ensures a balanced and effective decision-making process, while taking into account the interests of all stakeholders. Providing clear and in time information is inextricably linked to this.

Appointment, suspension or dismissal

The members of the Executive Board are appointed by the AGM by binding nomination of the Supervisory Board. In this context, the company's articles of association contain the following rules.

- The AGM 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 AGM 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 AGM 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 AGM, the AGM may resolve to do so with a simple majority of votes.
- If the Supervisory Board has not put forward a proposal, the AGM 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 are a top priority at TKH and 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 receives a code of conduct and it 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 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 in the year under review in which a conflict of interest has been detected among either Executive Board members or Supervisory Board members as per best-practice provision 2.7.3 of the Code.
- The Company has not entered into any transactions with either natural or legal persons who hold ten percent or more of the company shares as per best-practice provision 2.7.5. of the Code.

TKH endorses the principles and underlying best practice provisions set out in the Code as they relate 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 as a member of 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 as a member of 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. For the third member of the Executive Board, Mr. A.E. Dehn, who commenced employment at TKH on 1 August 2011,

the best-practice provision applies. At the AGM on 7 May 2015, Mr. Dehn was reappointed by the AGM for a further 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. When filling future vacancies, the company factors in the statutory target figure while also taking into account the background and experience of a candidate.

Internal Audit

- TKH has set up a Internal Audit service, 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.

SUPERVISORY BOARD

Tasks and responsibilities

- The Supervisory Board has the task of supervise 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 company and supervises the relationship of the Executive 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 and takes into account the relevant interests of all stakeholders.

- The Supervisory Board ensures that it functions effectively. As per 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 judgement.
- The allocation of tasks within the Supervisory Board, as well as the way of working of the Board, are established in its rules. The rules also include regulations on handling actual or potential conflicts of interest between members of the Supervisory Board in relation to the company. The company also has a set of rules governing possession of and transactions in securities by members of the Executive Board and the Supervisory Board other than those issued by their 'own' company. Separate rules have also been drawn up for the three committees (the Audit Committee, the Remuneration Committee and the Selection and Appointment Committee) that set out the 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. The Supervisory Board shall

receive from each of the committees a report of its deliberations and findings.

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 activities of TKH. 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 relevant aspects 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. 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 (temporarily) consists of six members.

Appointment, suspension or termination

With regard to the appointment of Supervisory Directors, the articles of association of the company include the following:

- Members of the Supervisory Board are appointed by the AGM on the recommendation of the Supervisory Board. The AGM may reject the nomination by an absolute majority of the votes cast, representing at least one-third of the issued capital. If the AGM 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 AGM 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 AGM 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 (after adoption by the General Meeting of Shareholders and implementation of the proposal to amend) the articles of association of TKH, the 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 and vice-chairman to replace the chairman should the occasion arise. The vice-chairman is also the point of contact for individual members of the

Supervisory Board and 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 AGM endorsed the appointment of Ernst & Young Accountants LLP (EY) as independent auditor for the financial years 2017 and 2018. 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.

3 REMUNERATION

- The remuneration policy for the Executive Board aims at providing a competitive remuneration package to attract, motivate and retain qualified managers of a publicly listed company, while considering TKH's size and unique characteristics.
- Remuneration for the Supervisory Board was established by the AGM in 2015. The remuneration 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 of the chapter on Remuneration of 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 relevant principles and underlying best-practice provisions as formulated in the Code under 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 contribution for the Executive Board since the individual members must buy the same number of shares as the number that are awarded 'free of charge' within the framework of the plan. Due to this financial contribution by 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.

4 GENERAL MEETING OF SHAREHOLDERS (AGM)

- An AGM is held annually. Extraordinary General Meetings are held as often as considered desirable by the Executive Board or Supervisory Board and also as often as requested in writing to the Executive Board or Supervisory Board by shareholders and/or holders of depositary receipts, representing at least 10% of the issued capital, with a specification of the topics to be discussed.

TKH endorses the principles and underlying best practice provisions formulated in the Code and relating to the shareholders and applies them, unless otherwise stated below.

- 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.

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 for 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 an AGM 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 for 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 deviation 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 Takeover Directive Art. 1 (1) (a), is included in the Section 'The TKH share' and in the notes to the financial statements.

Management of Stichting Administratiekantoor

- The Executive Committee of Stichting Administratiekantoor consists entirely of independent members. The Executive Committee does not include any (former) Executive Board members, (former) non-executive directors, employees or permanent advisers of the company.
- A member of the 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 Administratiekantoor Executive Committee. The Stichting 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 AGM by electronic means. TKH offers shareholders and depositary receipt holders the possibility of issuing a proxy to vote in accordance with the e-voting system prior to the AGM.
- 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 when exercising its voting rights as defined in best-practice provision 4.4.5 of the Code. The Stichting 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 AGM, 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 on Corporate Governance as referred to in Article 2a of the Decree on the report of the Executive Board ('Decree'). The required information to be included in this Corporate Governance statement as referred to in Articles 3, 3a and 3b of the Decree can be found in the following chapters, parts and pages of this 2017 report of the Executive Board and should be inserted and repeated in this statement.

- The Corporate Governance Code applies to TKH and is accessible via www.commissiecorporategovernance.nl. The information concerning compliance with the Dutch Corporate Governance Code as required by article 3 of the Decree can be found in the chapter on 'Corporate Governance'.
- The information concerning the main features of the internal risk management and control systems relating to the financial reporting process as required by article 3a sub a of the Decree can be found in the chapter on 'Risk Management'.
- The information regarding the functioning of the AGM and the main authorities and rights of the shareholders and holders of depositary receipts in shares as required by article 3a sub b of the Decree, can be found in the chapters 'The TKH Share' and 'Corporate Governance'.
- 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 this chapter on Corporate Governance, the 'Report of the Supervisory Board' and in the '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 sections 'Corporate

Governance', 'Report of the Supervisory Board' and 'Report of the Executive Board'.

- The information referred to in the Takeover Directive (Article 10) Decree as required by article 3b of the Decree can be found in the chapter on 'Corporate Governance', 'The TKH Share' and in the notes to the company financial statements.

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

Risk management

Risk management, under the responsibility of the Executive Board, is an integral part of the strategic agenda and receives constant attention within the Executive Board, Management Board and the Supervisory Board. The aim is to optimally control the most important risks that TKH is or may be exposed to, to facilitate the reliable realisation of operational, financial and non-financial objectives and to ensure compliance with legislation and regulations.

An open, transparent culture in which the organisation is open to criticism is a condition for appropriately dealing with risks, responsibilities and powers, and for recognising them 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 considers an effective risk management model as an important means of realising long-term value creation.

RISK MANAGEMENT STRUCTURE

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

- An Internal Control Framework (ICF) is based on the 'Committee of Sponsoring Organisations of the Treadway Commission' (COSO 2013). This framework is used by TKH to analyse and evaluate the strategic, operational, financial and compliance risks for each operating company.
- The TKH Manual includes regulations and guidelines on decision-making procedures and powers for the strategic management of our operating companies. It also establishes guidelines concerning the cash and currency management (treasury policy), as well as the various rules of conduct, such as an authority to sign policy, a code of conduct for staff members and a whistleblower procedure. In addition it contains guidelines for internal management and control measures, including IT controls,

for internal and external financial reporting, for insurance and how to deal with claims.

- At least once a quarter, such topics as the results, market and business developments, as well as (potential) risks for each operating company, are discussed by the Executive Board and local management or the cluster management.

The risk management policy is tailored to the size and decentralised structure of TKH. The components of the TKH risk management policy are assessed by the internal audit department. Each operating company's main strategic, operational, financial, reporting and compliance risks are identified and analysed and their potential impact on the operating company is determined. The results of these analyses are discussed with the Executive Board. At least twice a year, the most important findings of this review are discussed with the Audit Committee by the Director Internal Audit. The Executive Board, internal Legal Advisor, Director Finance & Control and the Compliance Officer also evaluate

the risk management system. Where relevant, the design and existence of the internal risk management and control systems for external financial reporting are also assessed by the external auditor in the context of the audit of the financial statements. The outcomes and impact of this on the audit strategy are discussed with the Executive Board and the Audit Committee.

DEVELOPMENTS IN 2017

In 2017, no risks or uncertainties occurred that had a significant impact on TKH other than those mentioned in this report of the Executive Board. Considerable attention was paid to the expansion of the production capacity for sub-sea cable systems. Because this concerns a new and innovative process for the development of a distinctive sub-sea cable portfolio, there was still a learning curve in 2017. The extent of management involvement and the uncertainty in the management estimates are consequently

significantly higher than with other projects. In addition, there were one-off costs for upgrading technology for parking guidance systems at selective locations and for addressing the shortcomings in project management with regard to parking guidance projects. As a result of this, the project controls have been tightened.

The 2017 reporting year was also characterised by further streamlining the focus on developing and positioning the TKH core technologies. The success of the R&D developments is vitally important for TKH's long-term value creation. The challenges applying to TKH in that context and the further execution of the strategy are part of the risk management agenda.

In the year under review, the internal risk management system was reassessed and some improvements were made. The risk analyses were updated. Continuous

monitoring takes place in order to adjust the analyses to changing internal and external conditions if necessary. In addition, in 2017, the most relevant primary processes with a high impact on the operating companies were implemented in the Internal Control Framework as part of the financial reporting. In 2018 the other processes and/or operating companies will be integrated into the framework.

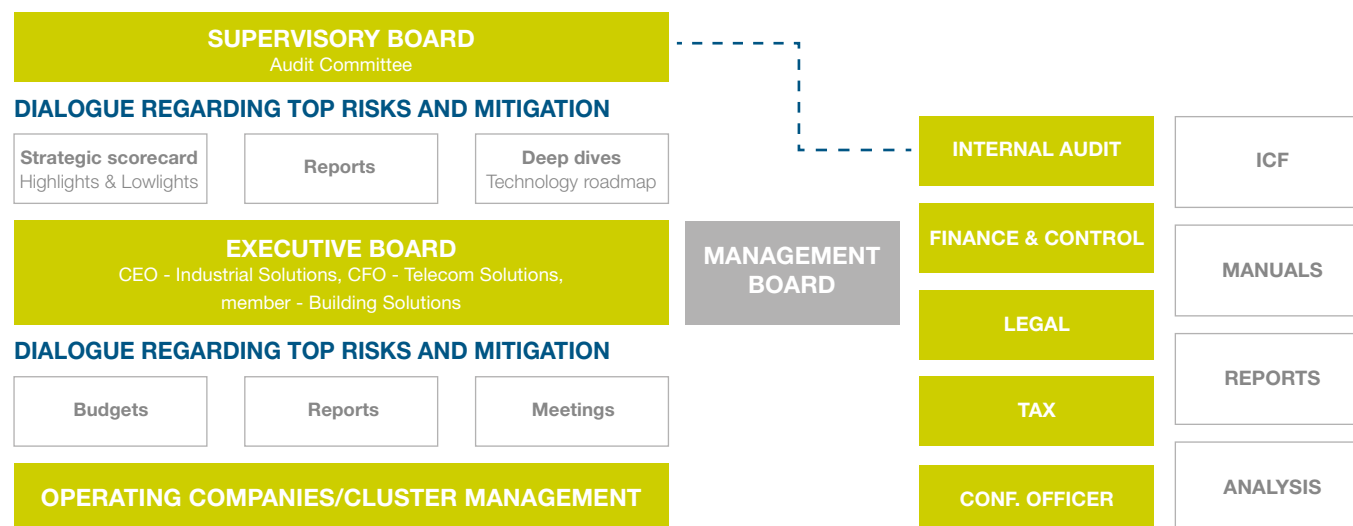
Due to the growth of the company, and to ensure sufficient control of the Internal Control Framework and other risk management components, the Internal Audit function was expanded in 2017 with an additional Internal Auditor. This also provides a better guarantee of the independence of the internal audit activities.

In 2017, IT audits were performed on the basis of a renewed IT and Security Policy, with specific attention also being paid to cyber crime and related IT risks. For operating companies with a high risk based, for example, on size, technology and reputation, the risks have been identified and recommendations have been made to further mitigate these risks.

In the year under review, attention was paid to the new privacy legislation that will come into effect in the second quarter of 2018. The elements on which potential risks are being run have been mapped out and where necessary additional measures have been identified. However, these mainly focus on awareness within the organisation and employees.

TKH is active worldwide by means of 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. In the year under review, thorough attention was paid to the implementation of new reporting standards in the field of revenue recognition (IFRS 15) and financial instruments (IFRS 9).

RISK MANAGEMENT STRUCTURE



RISK APPETITE

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

MOST IMPORTANT RISKS AND MEASURES

The most important risks have been identified and clustered into four categories: strategic risks, operational risks, financial and reporting risks and compliance risks. We then make an estimate per risk of the possible impact on the organisation and the likelihood that this risk will occur (risk classification). The impact includes financial and non-financial factors such as reputation. The tables on the next pages show the most important risks per category, with a high or medium impact and probability, as well as the most important measures to mitigate the risk. The trend of the risk (increased, decreased or equal) in relation to the previous reporting year 2016 is also included. To determine the trends, various sources, such as market, competitive and environmental analyses, but also stakeholder meetings and interaction, were consulted. The model with risk classification and trend is a dynamic model that can alter due to changed external circumstances, or because of changes in the risk management systems.

STRATEGIC RISKS

Strategic risks arise if insufficient efforts are made to create distinctive character, innovations and new technologies and market opportunities. In general, strategic risks have an impact in the medium- or long-term and usually manifest themselves gradually over time.

OPERATIONAL RISKS

The operational risks mainly relate to project management, availability of raw materials, IT including the danger of cybercrime and essential knowledge and skills, as well as ensuring adequate and qualified staffing. Inadequate control of operational risks can have a significant negative impact in the short- and long-term.

FINANCIAL AND REPORTING RISKS

Financial risks often involve risks that directly or indirectly affect TKH's financial resources. They also include risks in

the area of reporting and financial valuations, including commodity prices and currencies, as well as the risks of uncollectable debts from customers. The impact can be considerable if such risks are not properly managed.

COMPLIANCE RISKS

Compliance concerns both compliance with legislation and regulations and the enforcement of regulations in areas such as behaviour, integrity and human rights. Ensuring and promoting integrity and the correct culture is an integral part of this risk category. Inadequate control may, for example, lead to reputational damage and immediately have a significant impact.

OTHER RISKS

In addition to the most important risks as previously mentioned, other risks have been identified with a lower combination of impact and probability. These risks are also included in the TKH internal risk management system.

TKH RISK APPETITE 2017

	Averse	Minimal	Cautious	Open	Hungry
Strategic					
Operational					
Financial					
Compliance					

KEY TO SYMBOLS

RISK CLASSIFICATION (based on impact and probability)

- High risk
- Average risk
- Low risk

TREND IN COMPARISON TO 2016

- ▲ Increased
- ▼ Decreased
- ▬ Equal

MOST IMPORTANT RISKS AND MEASURES

	STRATEGIC RISKS	RC	TREND	MEASURES
1	Global economic and geopolitical situation.	●	▲	<ul style="list-style-type: none"> Spread of activities across multiple product/market combinations. Internal efficiency programs and cost reduction programs. Geographical spread across Europe, North America and Asia. Strong financial balance and position.
2	Technology and innovation: <ul style="list-style-type: none"> Speed of technological developments. Execution of R&D road map. New technologies from competitors. Capacity to recoup investment. Harmonization of niche specifications into standard commodity solutions. 	●	▲	<ul style="list-style-type: none"> Realize at least 15% of 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 4.5% of turnover is spent on R&D. Focus on vertical growth markets.
3	Acquired companies are not successfully integrated.	●	▬	<ul style="list-style-type: none"> Procedures and guidelines for the implementation of a due diligence process. Integration in the TKH reporting and control systems. Harmonization of business processes and systems where necessary and desirable. Continuous attention to the creation and utilization of synergy effects.
	OPERATIONAL RISKS	RC	TREND	MEASURES
4	Deficiencies in project management: <ul style="list-style-type: none"> Integration of solutions into a comprehensive solution. Complex and extensive projects. New and innovative processes. 	●	▲	<ul style="list-style-type: none"> Investment in qualified staff. Training and education of staff. Guidelines and procedures with respect to project management. Important projects are discussed at quarterly meetings between the Executive Board and local management. Major projects with an above-average risk are monitored on a regular basis, if necessary with increased involvement of the Executive Board.
5	Important raw materials are unavailable or available in limited quantities.	●	▬	<ul style="list-style-type: none"> Purchasing raw materials from several carefully selected suppliers and concluding multi-year framework agreements with the suppliers of important raw materials. The suppliers are selected by means of a vendor selection procedure with performance being regularly analyzed. Interest of 12.5% in the supplier of glass fibre preforms.
6	IT and cyber crime: <ul style="list-style-type: none"> Decentralised IT landscape. Different ERP systems. Availability, confidentiality and integrity of data (including IP). Cyber crime risks. New privacy legislation. 	●	▲	<ul style="list-style-type: none"> 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 of the most important operating companies discuss significant developments, trends and risks in IT. The internal and external security environment is tested by a specialized external agency.
7	Shortage of well-qualified staff and inability to retain qualified staff.	●	▲	<ul style="list-style-type: none"> Performance/Talent management program in each operating company. Management Development Program. Regular staff satisfaction surveys. Use good reputation as an attractive employer to recruit talented employees. Cooperation programs between operating companies and with training institutes.

	FINANCIAL AND REPORTING RISKS	RC	TREND	MEASURES
8	Reporting risks in the area of: <ul style="list-style-type: none"> Revenue recognition. Goodwill valuation and impairment testing. Valuation of inventory. Valuation of projects in progress. 	●	■	<ul style="list-style-type: none"> Internal procedures and guidelines for internal and external financial reporting and verification of reports. Controller meetings are regularly organized with important reporting issues being discussed. Training and education of (financial) staff. 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 operating company.
9	Volatility of currencies.	●	▲	<ul style="list-style-type: none"> Treasury Statute that establishes the currency risk management, including responsibilities, authorizations and reports. Material currency risks are hedged in accordance with the Treasury Statute if these risks cannot be passed on in the market. Currency 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.
10	Interest rate volatility.	●	■	<ul style="list-style-type: none"> The interest policy is determined at corporate level. Balances with credit institutions are compensated to minimize interest charges. Long-term financing is attracted at variable rates and is if necessary fixed by means of interest rate swaps, whereby TKH strives to fix interest rates for 40-70% of its net financing requirement.
11	Commodity price volatility.	●	▲	<ul style="list-style-type: none"> Economic stock positions are limited as far as possible. The copper positions of each operating company 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: <ul style="list-style-type: none"> a sales contract is concluded at a fixed price; delivery does not take place within one month; a significant amount of raw material is needed for the production.
12	Credit risk.	●	■	<ul style="list-style-type: none"> The credit risk for cash and cash equivalents is run at major international system banks. External financing is contracted by the holding company for the entire TKH group. The principal credit risks relate to trade debtors. However, the risk is spread over a large number of customers that operate in various countries and in different markets. Part of the risk is insured with credit insurance companies. In addition, part of the risk has been transferred to factoring companies. The credit insurance and factoring mainly concerns advances to customers in the connectivity and manufacturing systems sub-segments. These customers are mainly located in the Netherlands, France, Germany and Asia. For orders mainly to international customers, TKH uses bank guarantees, advance payments (against a bank guarantee) or confirmed irrevocable Letters Of Credit.

	COMPLIANCE RISKS	RC	TREND	MEASURES
13	Damage (including reputational) due to violation of legislation and regulations, and regulations in the area of: <ul style="list-style-type: none"> • Export and sanction regulations. • Unfair competition. • Fraud, corruption and bribery. • Human rights and child labour. • Environment. • Working through agents and intermediaries. 	●	■	<ul style="list-style-type: none"> • Internal guidelines relate to, for example, internal control measures, responsibilities and authorization requirements of the management. • Monitoring of financial flows by TKH in part by: <ul style="list-style-type: none"> • verification of the executed transactions via the central treasury system and the establishment of banking authorizations; • the setting of credit limits for each operating company, in principle with no local credits being permitted with banks outside TKH's banking group, unless TKH has given 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 considerable attention is paid to the issues of fraud, corruption and bribery using 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 now aware of how they should do business honestly and by signing it 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). • A risk-averse culture is an important precondition in the context of risk management and the prevention of risks. • Corporate social responsibility is integrated in the strategic agenda and anchored in the day-to-day operations.
14	Non-compliance with tax legislation and regulations.	●	▲	<ul style="list-style-type: none"> • Centralized monitoring of compliance and developments of (new) legislation and regulations in the field of tax, sanctions regulations and general legal developments with attention for specific risks in the area of transfer pricing, permanent establishment and VAT. • Transfer pricing documentation in accordance with OECD guidelines. • In the context of horizontal supervision, there is open communication with the (Dutch) tax authorities. • Make use of external tax advisors for specialized subjects. • Roll-out a Tax Control Framework. • Internal tax reports, including standardized tax reporting packages. • Internal guidelines regarding compliance with sanction regulations, including a procedure in respect of supplies to sanctioned countries.

OTHER RISKS

	TYPE OF RISK	OTHER RISKS	RC	TREND
15	Strategic	Limited market share and brand awareness in a number of sub-segments and geographic markets.	●	■
16	Strategic	Dependency on government measures in some markets.	●	■
17	Strategic	Harmonization of niche specifications into standard commodity solutions.	●	■
18	Strategic	Dependence upon customers and suppliers in a number of sub-segments.	●	■
19	Operational	Disasters within production facilities.	●	■
20	Financial	Infringement of IP rights of and by third parties.	●	■
21	Financial	Pension risks.	●	▼
22	Financial	Inadequate funding.	●	▼

QUANTIFICATION OF RISKS AND SENSITIVITY ANALYSIS

	MOVEMENT	IMPACT	ON	ASSUMPTIONS (based on 2017 financial statements)	RELATES TO RISK
Turnover	1%	€ 6.7 million	EBITA	No adjustment of operating costs.	1, 2, 3, 5, 9, 11
Raw material price copper	10%	€ 3.6 million	EBITA	No derivatives to hedge price risks.	11
Gross margin	1%	€ 14.8 million	EBITA	No adjustment of operating costs.	1, 2, 3, 5, 9, 11
Operating costs	1%	€ 5.6 million	EBITA	No adjustment of turnover/gross margin.	operational and financial risks
Cash conversion cycle	1 day	€ 2.1 million	Working capital	All other variables remain constant.	financial risks
Currencies - financial instruments	10%	€ 2.5 million	Operating profit before taxation	All other variables remain constant.	9
Currencies - financial instruments	10%	€ 17.9 million	Shareholders' equity	All other variables remain constant.	9
Interest	1%	€ 1.3 million	Operating profit before taxation	Net banking debt including the deduction of interest rate swaps, held at variable interest rates.	10
Interest - financial instruments	1%	€ 0.3 million	Shareholders' equity	Based on concluded interest rate swaps.	10
Interest-bearing debts	10%	€ 0.5 million	Operating profit before taxation	Based on stable interest rates and partial increase in USD debt.	10

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 in the table above, should these risks occur. A sensitivity analysis is also included.

The financial statements, including in note 20, set out TKH's objectives and the policy with regard to the use of financial instruments for risk management, also in connection with the hedging of risks associated with all major types of transactions on which TKH runs capital, liquidity, interest rate, currency, credit and price risks.

PLANNED ADJUSTMENTS IN THE RISK MANAGEMENT SYSTEM IN 2018

Risk management is an integral part of TKH's strategic agenda and receives constant attention. In addition to the constant points of attention referred to, a number of specific improvements are planned for 2018:

- Complete updating of the TKH Manual including its implementation in the organization.
- Use of data analysis for portfolio reviews and internal audits.
- Conducting IT audits at the other operating companies.
- Pilot audits on non-financial data, including the realization of objectives in the area of corporate social responsibility.
- Further increase of the internal awareness of TKH guidelines by means of the provision of training materials and tools to operating companies and training courses.
- Attention will be paid to the implementation of IFRS 16 Leases. For further explanation, reference is made to note 1 of the financial statements.

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 the company. 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 shortcomings of the administrative organization and internal control were found.

Based on the financial results for the 2017 financial year and the expectations for the 2018 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 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 Report of the Executive Board gives a true and fair view of the situation on 31 December 2017, the state of affairs at TKH and its affiliated companies during 2017, the details of which are presented in the financial statements, and that the Report of the Executive Board describes the fundamental risks facing the company.

Haaksbergen, 5 March 2018

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

Stichting Administratiekantoor TKH Group

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

- The activities during the year under review, related exclusively to the administration of shares for which depository receipts have been issued.
- The total nominal value of the ordinary shares of TKH Group NV held in administration amounted to € 10,666,178.50 on 31 December 2017, in exchange for which 42,664,714 depository receipts for shares 1 with a nominal value of € 0.25 each have been issued.

The objective of Stichting Administratiekantoor TKH Group ('Stichting Administratiekantoor'), the Trust Foundation, is to acquire and administer registered shares in the public limited company TKH Group NV which has its seat in Haaksbergen and to hold them for management in exchange for issuing exchangeable bearer depository receipts for shares. Stichting Administratiekantoor shall exercise the rights attached to the shares in such a way that all the interests involved with the company and its enterprise are guaranteed as effectively as possible. Hollandsch Administratiekantoor BV in Amsterdam is the administrator of Stichting Administratiekantoor.

1 The number of depository receipts increased by 13,639 compared to 31 December 2016, due to the conversion of register shares into depository receipts for shares.

MEETINGS OF THE EXECUTIVE COMMITTEE

The Executive Committee of Stichting Administratiekantoor met three times during the financial year. At the meeting on 30 March 2017 the topics on the agenda of the 2017 AGM were discussed and the Executive Board of the company provided an explanation of the TKH 2016 annual report. The 2016 financial statements of Stichting Administratiekantoor were also discussed, approved and subsequently adopted at the meeting. The vacancy on the Executive Committee of Stichting Administratiekantoor has been discussed, due to the resignation of Mr. Den Boogert in connection with the expiry of the statutory term of office. The vacancy was announced on the website of Stichting Administratiekantoor, with holders of depository receipts being given the opportunity to put forward the names of possible candidates. There were no responses to this announcement. Following a selection of possible candidates, the Executive Committee subsequently appointed Mr. G.W.Ch. Visser as member of the Executive Committee of Stichting Administratiekantoor, for a period of four years, commencing on 1 July 2017.

In preparation for the AGM, the Executive Committee met on 3 May 2017 and discussed the items on the agenda for the AGM. The Executive Committee of Stichting Administratiekantoor decided on its preliminary voting intentions, in advance of the deliberations at the AGM itself. At the 2017 AGM the holders of depository receipts of

EXECUTIVE COMMITTEE STICHTING ADMINISTRATIEKANTOOR TKH GROUP

The Executive Committee of Stichting Administratiekantoor currently has three independent members:

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

shares in the capital of the company were allowed to vote independently in respect of the shares corresponding with their depository receipts and subject to the relevant statutory provisions. At the meeting, 99.6% of the issued capital was represented. 62.4% of the holders of depository receipts for shares requested a proxy from Stichting Administratiekantoor to vote independently on the shares in question. Prior to the meeting, 45.5% of the holders of depository receipts gave voting instructions to Stichting Administratiekantoor. During the 2017 AGM, Stichting Administratiekantoor voted for the remaining 37.5% of the issued capital represented at the meeting. After considering all the relevant factors, Stichting Administratiekantoor voted at the AGM in favour of all of the items on the agenda which were put to a vote.

At the meeting on 19 September 2017, the Executive Board gave a presentation on the interim figures 2017 that had been published. The provisions of the revised Corporate Governance Code ('Code') that relates to Stichting Administratiekantoor were discussed and, where necessary, opinions have been determined. In this context, specific attention was paid to the legal authority of Stichting Administratiekantoor to deny proxies or revoke a particular proxy under certain situations prescribed by law. In this respect, it was determined 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. Stichting

Administratiekantoor once again emphasised that depositary receipt holders 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 the utmost circumspection, will invoke its authority to deny the proxy or revoke a proxy that has already been granted. In addition, the proposed amendment to the articles of association and administration conditions of Stichting Administratiekantoor was discussed during the meeting, to align it with current legislation and regulations, including the Securities Giro Transactions Act (Wge) and Euronext Rulebook II, as well as the decision about the provisions by the Executive Committee towards the revised Code. The Foundation has consulted its external legal advisor for the proposed amendment of the articles of association and administration conditions.

SCHEDULE OF RETIREMENT

In the year under review, Mr. Prof. M.W. den Boogert resigned and could not be reappointed for a subsequent term in view of the expiry of the statutory term of office. The Executive Committee is greatly indebted to Mr. Den Boogert for his very large involvement and the extensive knowledge and experience both from a legal point of view and in the context of corporate governance, he contributed during his term of office. In the vacancy that has arisen, Mr. G.W.Ch. Visser appointed as member of the Executive Committee of Stichting Administratiekantoor as of 1 July 2017 and for a period of four years.

REMUNERATION

The remuneration of the independent Executive Committee members was most recently amended as per 1 January 2015. The annual remuneration for the chairman is

€ 12,500 and € 10,000 for a member (both excluding VAT). Additional remuneration is awarded if the Foundation's Executive Committee is expected to make an extra effort. The costs of the Foundation amounted to € 54,092 in 2017 (2016: € 60,447).

CONTACT DETAILS

Stichting Administratiekantoor has its office at the company's address. Stichting Administratiekantoor can also be contacted via its website: www.stichtingadministratiekantoor.tkh.com or via email: stak@tkhgroup.com.

Haaksbergen, 19 March 2018
Stichting Administratiekantoor TKH Group

The Executive Committee

STATEMENT OF INDEPENDENCE

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

Haaksbergen, 19 March 2018
TKH Group NV

Executive Board

Haaksbergen, 19 March 2018
Stichting Administratiekantoor TKH Group

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 NV. He now holds the following positions:

- Chairman Supervisory Board Fugro NV.
- Chairman Supervisory Board Royal BAM Group NV.
- 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 BV' and his other positions include:

- Member Supervisory Board ABN AMRO NV.
- Member Supervisory Board Royal HaskoningDHV BV.
- Member Supervisory Board DKG Holding BV.
- Member Board of Trustees of Stichting Reinier Haga Groep.

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

- 2017 first appointment
- 2021 term limit

Mr. Visser is director of Stichting Ubbo Emmius Fonds [Foundation Ubbo Emmius Fund] and his other position include:

- Chairman Board of Trustees Orkest van het Oosten.

Stichting Continuïteit TKH

The objective of the Stichting Continuïteit TKH ('Stichting Continuïteit'), Continuity Foundation, 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 on issue longer than is 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 Board and Supervisory Board 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 to doubt 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 twice in 2017. The meeting was also attended by the Executive Board at the invitation of Stichting Continuïteit's Executive Committee. During the meeting which was held in March 2017 the Executive Committee devoted attention to the annually renewable standby credit agreement for Stichting Continuïteit, amongst other things. This credit facility is exclusively intended for the acquisition of cumulative protective preference shares, in so far as this serves Stichting Continuïteit's objectives. In addition, Stichting Continuïteit's financial statements were discussed, along with its procedures and processes for the purposes of exercising the call option.

In May 2017 we had to contend with the sad news of the death of our member of the Committee, Mr. L.P.E.M. van den Boom. In Mr. Van den Boom we have lost an amiable and capable Executive Committee member. During the meeting of October 2017 the vacancy which occurred due to his death was dealt with and it was decided to appoint Mr. A.J.M. van der Ven to serve as a member of the Executive Committee of Stichting Continuïteit. In view of the fact that Mr. Van der Ven has been appointed to fill a vacancy that has occurred ahead of schedule, he will serve for the remaining period which his predecessor was still to serve, in this case until 30 June 2018. During that meeting a decision was also taken to award the members of the Executive Committee of Stichting Continuïteit additional remuneration, given the exceptional situation in which unforeseen work needs to be carried out for a lengthy period of time. After the meeting the Executive Committee was provided with an explanation of the activities of VMI Holland B.V. by means of a guided tour.

EXECUTIVE COMMITTEE STICHTING CONTINUÏTEIT

Stichting Continuïteit's Executive Committee consists of:

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

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, 19 March 2018

Stichting Continuïteit TKH

The Executive Committee

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 [Wet op het financieel toezicht].

Haaksbergen, 19 March 2018

TKH Group NV

Executive Board

Haaksbergen, 19 March 2018

Stichting Continuïteit TKH

The Executive Committee

[illegible]

Smart Technologies

Technological developments are a determining factor for product development

Interactive Voice Response (IVR), Vision Technology, Artificial Intelligence (AI) and 'Machine and Deep Learning' are technological developments that have also found their way into TKH smart technologies. These developments are a determining factor for product strategy and product development within TKH and are utilized in our intelligent software developed in-house.

A typical feature of intelligent software is that algorithms generated from extensive databases can make predictions and take decisions autonomously. TKH plays a crucial role here in bringing together software knowledge and applications from the various TKH subsidiaries on a practical scientific basis. The aim is to achieve continuous development of technological applications that lead to greater efficiency and reliability of the application for the end users, among other benefits.

INTERACTIVE VOICE RESPONSE (IVR)

Interactive Voice Response (IVR) is an in-house development by TKH and is a software application that utilizes speech recognition based on an 'all-knowing' database. IVR is utilized amongst other in the TKH mission-critical communications solutions that enable the correct response to be given to a random question asked via an intercom system. IVR is extremely relevant for TKH because it forms

the basis for guaranteeing communication in every critical situation, even without direct intervention from an operator. IVR applications are utilized in stand-alone situations or within existing networks and are deployed in situations including the safety and security of buildings, car parks, city centres, hospitals and airfields, but also in universities and industry. Safety and communication via integrated voice, image and data applications.

VISION TECHNOLOGY

Vision technology is utilized to achieve greater efficiency and reliability of system processes. To guarantee efficiency, preventive and predictive maintenance of the machinery that carries out the processes is important. Essential machine usage data is collected in databases on the basis of which analyzes and inspections are possible and maintenance can be planned in advance. The data is generated via the software built into the top-grade vision cameras. This is used

to establish algorithms and models that in turn provide insight into the expected maintenance. This all falls within the domain of 'Deep Learning' and 'data mining', where patterns and connections are searched in large amounts of data in an automated process.

ARTIFICIAL INTELLIGENCE (AI)

Developments in the field of Artificial Intelligence (AI) are also followed within TKH with more than a passing interest. AI is a collection of technologies that together imitate or even exceed human intelligence. Take for instance skills such as predicting, learning and reasoning – but with the advantages of scale of a computer. For example, computers that understand speech and text or recognize objects and faces on photos. Add 'machine learning' - self-learning machines - and you have all the means you need to be able to create something that exceeds our intelligence.

In this field it is more about research than development and it is becoming increasingly scientific. For Machine and Deep Learning you need, besides analysis and inspection, enormous databases for data processing of, for instance, further development of admission control using biometrics. This is an identification method based on unique bodily characteristics. You can then achieve considerable cost savings. Granting access by using heart frequency to identify people is ready for production at TKH and provides with 99.9% the highest certainty about 'who is who'. In departments and buildings, only a single identification is required and not repeatedly for separate spaces or rooms via scanners on doorposts.

All in all, these are revolutionary developments within TKH where the 'learning algorithms automate the automation'.

Mission Critical Communication

Our communication technology focuses on image transfer, speaking and listening connections, guiding and lighting systems, security and control. For security in buildings, the communication technology is often combined with the group's vision and security technology. By means of our technologies, we promote among others efficiency, safety and security in tunnels, car parks, outpatient and inpatient care, airports, football stadiums, schools and financial institutions.

Smart technology applications

Interactive Voice Response (IVR)

Emergency response management systems

Site management systems

Security management systems



The communication solutions from TKH are always ‘mission critical’

For TKH, communication is always mission critical in terms of reliability, (operational) efficiency and safety. Ingenious intercom solutions, made possible by ‘smart technology’.

The server platform from TKH provides integrated solutions for speech, video and data, not only locally but also for ‘wide area’ networks like the internet, wherever security is critical and situations require an immediate response from the emergency services. The TKH team is able to build robust IT environments with intelligent software for secure communication even in the most extreme and demanding conditions.

INVISIBLE PRESENCE

Intercom systems from TKH can be found wherever mission-critical communication is essential, and that can be a whole variety of applications: in offices, hospitals and healthcare institutions, in car parks, on railway stations, in prisons and shopping centres or on oil platforms, in tunnels and on bridges. In many cases, an intercom solution runs ‘in the background’ without anyone being openly aware of its presence.

TKH’s advanced audio analyzes guarantee the highest quality audio processing, always with clear speech reproduction, even in the noisiest environments and toughest weather conditions. After all, communication without understandability is meaningless. For example, from a central control room in the Netherlands, a call from a car park in England is replied to in English while in Germany,

the answer to the call is given in German. The system itself is able to determine the language in which the call has been made and guarantees that the reply is given in that same language.

DISTRESS CALL SYSTEMS

In certain emergencies or in the case of disasters, it is not always possible for the distress call to be made by the affected party, for example in the event of a major fire or explosion. Thanks to the intelligent Emergency Response Management System (EMR) from TKH, any distress call can be fully automatically managed and processed.

Operators in the central control room are not physically tied to their location for answering a distress call. They can for example take the control desk with them in the form of an app on a smart phone or tablet, to the accident location. This option is increasingly used to maintain contact with the members of the emergency services.

The EMR system from TKH ensures that when the emergency services arrive at the scene, all the functions of mission-critical communication are available via intercom, such as evacuation control, public announcements and calls, mobile radio communication, access control and other complex security applications.



‘SPIDER IN THE WEB’

In many respects, every technological application from TKH is effectively a ‘spider in the web’. This is best illustrated by the way in which all the essential functions are intelligently combined for a total solution using smart technology in software. Integration with other products and systems via high level interfaces within TKH ensures optimum synergy. We are seeing a growing trend towards more advanced hardware and intelligent software solutions. Faster, sustainable, mission critical and 24/7 availability are all terms we are happy to hear at TKH. Our communication technology is chosen by our customers thanks to our technological edge.



**TUNNEL &
INFRA**

TKH makes communication possible at Miami International Airport



To offer its passengers a secure environment, Miami International Airport (MIA) went in search of a communication solution for its Satellite E Automatic People Mover (APM), a railway system that links the central terminal and the gates. To meet all the challenges thrown up by this project, the decision was taken to approach TKH, in view of its knowledge and expertise in the field of the environmental and project-specific requirements facing MIA, and because of the high-tech communication capabilities.

REQUIREMENTS

The space available within each train carriage was limited, so the intercom system had to fit into this architecture. At the same time, the sound had to be of high quality and conversation had to remain understandable, even in a noisy environment. An additional wish was for a reliable alarm announcement and distress call system. To enable MIA to rapidly issue a call for assistance, they demanded an option for displaying visual indications to the operators in the central control room, to allow seamless communication within the APM and the passengers. On top of all, the intercom system had to be able to communicate on an existing wireless radio network.

THE SOLUTION

TKH was able to satisfy all these requirements as well as all the mission-critical communication systems and also supplied the operating software for these systems, including graphic user interfaces in the communication system for the central control room. As a result, the operators are now able to view live images by simply clicking on the camera pictograms of the graphic user interface. If the intercom button is pressed in the train, a live video link is established and two-way audio communication is made possible. The IP intercom modules are linked to the existing infrastructure. The intercom front columns were tailor made to fit with the narrow vertical design of the train. The installation was completed without the need to install additional cabling,



thereby maintaining the architectural integrity of the existing trains. This results also in huge savings in both time and money.

Monitoring of unmanned critical infrastructures via smart software of Apollo

TKH does not stand still when it comes to developing new technology. Proof is provided by the Apollo Site Management solution, a fine example of smart technology forming a bridge between security and IT network.

Apollo was specially developed in combination with the iProtect Security Management System. This combination offers a complete intelligent software solution for monitoring unmanned technical locations in critical infrastructures, where all locations are managed from a single platform. Critical infrastructures are processes that are essential for the functioning of our society, for instance Telecommunication.

EARLY DETECTION

It is important to monitor unmanned locations continually, particularly because our modern technology is more dependent on environmental factors than in the past. The earlier deviations are signalled, the lower the risk of a malfunction and/or system failure. Early detection can prevent disasters.

Apollo has mainly been developed not just to detect a wide variety of calamities, but also to fully automate triggering their follow-up. In such an event, both the operator and the necessary local emergency services can be alerted.

The system generates a large amount of data that is continuously renewed and analyzed. This data forms the basis for a host of analyzes which can lead to improvements in processes, insight into malfunctions, promotion of cost efficiency, management of certificates and monitoring of environmental factors and variables, among other benefits. For instance, temperature, humidity, smoke and/or fire and leakage are measured in order to subsequently generate an alarm if necessary.

ALL-IN-ONE

Apollo Site Management also provides the possibility to combine all kinds of security: access control, camera surveillance, burglar alarms and regulatory action, but also registration and reporting. Apollo checks identity, and on this basis, access is provided only to people who are authorized and have been checked. An app for smartphones is also in development.

FLEXIBLE

In addition, Apollo is completely flexible in being adapted to the requirements and wishes of the customer. That makes Apollo a unique smart technology. The separate building blocks are always the unique software, built-in firmware and the necessary hardware. Together they form 'power house' Apollo, which, once enabled, operates 'hands-off & eyes-off'.

With supplementary software modules, it is possible to predict via Apollo when maintenance is required of a system of assets in the spaces to be monitored. An additional and not insignificant consequence: a lower 'total cost of ownership'. Lower costs but more control. And all of this is achieved through that one unique concept that provides complete control over all the technical installations in critical infrastructure.





CARE

Canton hospital in
Baden communicates
according to the
latest technology



After many years of service, the existing intercom system at the canton hospital in Baden needs to be replaced. It was decided to install a modern, network-based mission critical communication technology of TKH, which meets all requirements in terms of security, functionality and design.

The communication solutions focused on:

- Communication at pay points as well as at entry and exit gates in the car parks.
- Communication lines for eight operating theatres, the recovery rooms, the PM room, and the cytostatics room.
- Communication lines for various rooms and lounges.
- Setting up group calls.

Easy expandability of the system was also a deciding factor.

In addition to the extra-high volume capacity, the intercom stations of TKH offer the possibility of pre-recorded audio messages for various purposes, e.g., as an acoustic notification in case of a line failure, or to provide reassurance messages when a call is made. Configurable background noise suppression ensures ultimate speech quality in challenging situations.

Eight of the hospital's operating theatres have been equipped with medical & clean room intercom stations with germkilling membrane surface. Thanks to the VirtuoSIS Software Intercom Server, the intercom stations can easily be re-patched as needed without annoying faults or worse annoyance of the systems.



Smart care solutions supports the care process

There is no smart technology without 'smart people'. That is why TKH is investing significantly within the group in software engineers in order to retain and further extend its carefully built technological lead. At the same time, the high-quality technological knowledge of intelligent software development means that the 'Time to Market' is reduced, making it possible to benefit fully from the opportunities.

KNOWLEDGE RESERVOIR

To a large extent, software development within TKH is concentrated at subsidiary C&C Technology in Poland. Here project-dependent collaborations have been entered into with at least 12 TKH subsidiaries. C&C Technology is an important knowledge reservoir with a strong reputation in developing smart technology. The TKH subsidiaries and their customers can therefore rely on the intelligent design of solution-dependent hardware, firmware, software and specific electronics including chips and PCBs (computer boards). Examples include the software developments for the Apollo Site Management system, the fully automated robot control in 'Point of Presence' within fibre optic networks and the smart sensors in the care solutions.

SMART CARE SOLUTIONS

Via a digital care platform, TKH provides support for the care process, for the client at home or in a care facility. Tailor-made and aimed at achieving optimum and efficient communication with the informal or professional care provider. For the care provider, use of the smart alarm scenarios from TKH's care solutions –under the brand name

VieDome- means a significant reduction in the number of false alarms. In the short term, it is going to lead to even more targeted and careful monitoring of the client, without any invasion of privacy. The integration of a new smart lifestyle sensor will bring that about. The unique aspect of this lifestyle sensor is that all the detectors are brought together in a single sensor. With this, an extremely innovative concept has implemented for the Dutch care market.

The VieDome platform has also grown to become an innovative system for personal security. It can be connected wireless and easily to the internet so that the system can be installed in a building on a permanent or temporary basis. Using a collaboratively developed app, employees can summon help quickly wherever they are. The software built into the sensors also gives care providers every opportunity to observe, analyze and bring into focus the behaviour of elderly people requiring care and people with a physical or mental disability, via audio and video communication. On the basis of the acquired data, not only the alarm can be sounded immediately, but a treatment plan can also reflect the situation.



We can manage the entire development process, from idea and design to end product, including testing of the solution. For us, data security and the lifespan of the solution always have the highest priority. We see these as prime examples of our creativity and vision on software development, where we always make sure that we approach the work in the most structured way possible. In addition, the care solution is a good example of combining knowledge within TKH Group, which results in great innovative projects.



CARE

‘Care without planning’ via smart technology from VieDome



The tendency that people want to continue living independently at home, requires flexibility in the provision of care. TKH investigated existing care models and came to the conclusion that a different way of organizing and greater technological support could make care provision more efficient and more customized. It would give the client greater control and provide support at the moment it is required. An innovative care model, where the care needs of the client are central, not the care organization's planning. By now the idea for the new care process has been completely worked out and launched in an unique project.

VIDEO-PHONE SYSTEM

The innovative VieDome video-phone system has been utilized as care technology: an open ECO system for care. The open technology means that products from different suppliers can be connected to VieDome. With more than 100 different functions in the VieDome platform, an extensive range of applications can be generated. Whether it concerns video care at home, social or personal alarms, acoustic monitoring, lifestyle monitoring, care control room, nurse call-out, E-health, fourth-generation video surveillance, mobile alarm with location determination, telemonitoring, wandering detection, services platforms or smart sensors - it can be all realized with VieDome.

CARE WITHOUT PLANNING

Optimal freedom of choice for residents plays a central role, alongside more efficient care and extra attention for clients. After clients have submitted their care requirement via the video-phone system, they reach a Centrale24 care contact point. There are nurses here, day in, day out, ready to determine for a support request who would be best to visit the person requesting care. That could be their ‘own’ informal carer but also a so-called ‘longer-at-home’ support person or a professional care worker. An additional advantage is a lighter workload for informal carers and also fast, high-quality customized care.



Connectivity

With our connectivity technology, we focus on energy distribution and electrical applications in the construction and infrastructure sectors, as well as data and communication transmission. We can develop customized specialty cables, connectors and connectivity systems for the most diverse applications in high-tech environments, including the industrial, marine & offshore and medical sectors. And we have advanced connectivity technology for contactless energy and data distribution.

Smart technology applications

Subsea-connectivity systems

Connectivity systems for marine & offshore

Optical fibre connectivity systems for data- and communication transmission

Contactless energy- and data distribution

Specialty (miniature) connectivity systems for robotics, medical and machine building industry

Drag chain connectivity systems

Structured cabling solutions

Connectivity systems for energy construction & infra sector



Microscopically connectivity technology for high-quality applications

The connectivity technology of TKH is so uniquely microscopic that it is more than ever in demand in various markets such as medical and industrial, machine building, measurement and control technology, and in automation.

Because manufacturing them is extremely accurate and professional work, the miniature cables are produced in dust-free rooms by specially trained employees. Miniature cables with diameters of up to 16 micrometres are manufactured here. Any contamination in both the cable core and the outer sheath is ruled out and the complete electrical and mechanical properties of the cables are guaranteed at the same time however minuscule they may be. Thanks to this, TKH's connectivity technology can be used for the chosen application immediately, without further verification of quality and characteristics. In fact, TKH provides its customers with the convenience and cost benefits of a one-stop-shop.

CHOICE OF MATERIALS

The overall functionality and life-span of the specialty cable are largely determined by the choice of the right material. Thermal, electrical or chemical mechanical properties play a role here. For example, there is no 'electrical leakage' in the cable and not even the slightest amount of gases or odours

are released. The cables remain flexible even under extreme temperatures and can resist external influences without losing quality. If the thickness of the cable is the determining factor for the system in which it is used, TKH uses specially wound PTFE foil of extremely high quality, which guarantees the electrical and mechanical properties of the cable.

CONTROLLING ENDOSCOPY CAMERA SYSTEMS

The miniature cables are also used in modern inspection systems controlled by camera and laser technology. The modern endoscopy camera systems in aircraft engines are a good example of this. These make it quicker and easier to search for such things as oxidation formation in turbines or the reliability of welds. If necessary, these inspection systems can be equipped with grippers to perform repair or maintenance. Modern robotization thanks to ultra-thin TKH specialty cables.



CEDD®AGL technology monitors security on airfield runways

More than ever, innovation and the development of our own new technology along with synergy and mutual cooperation within TKH are indispensable aspects. One of the fruits of this is the sophisticated technological concept for Airfield Ground Lighting (AGL).

The advanced in-house development of software bundle UWISE®Operational Intelligence, (USE Web Information System and Equipment) ensures, among other things, that the lighting on airfield runways and taxiways is always illuminated and makes a significant contribution to the safety and efficiency at airports.

COOPERATION

For the lighting on airport runways and taxiways, TKH developed already the unique CEDD®concept: the contactless system for the combined distribution of energy and data, in short CEDD®AGL. However, we are going a step further with the intelligent UWISE®OI software. UWISE®OI ensures lightning-fast processing of data generated via the CEDD®AGL solution and converts this to information and knowledge about everything the system monitors, inspects, controls and analyzes in the field.

UWISE®OI is a modular system which by now has proved to be the ideal combination of the applied software in the original CEDD solution on the one hand, and the software 'power house' Apollo from TKH on the other. Apollo is a

bundled software tool in ultra-compact casing with which everything the customer or user would like to have measured can be registered. Especially under heavy and harsh weather conditions and various environmental factors, such as at airfields.

CONSTANT MONITORING

UWISE®OI within CEDD®AGL ensures constant monitoring of aspects that include the technical status of the airfield lighting. Take-off and landing of aircraft represent an enormous burden on the runway lighting. But even a lamp screw that has loosened due to vibration does not escape the attention of UWISE®OI.

The system can give an indication of the lifespan of every lamp and manages to minimize corrective maintenance due to the constant analysis of the generated data. Thanks to the knowledge in UWISE®OI, maintenance can be planned proactively and remotely and a maintenance engineer will only need to access the runway if the CEDD®AGL system reports it. As a result, daily checks of all the lamps can be minimized, which means a considerable saving for the



airport managers. With the gathered knowledge, independently of any environmental factors or weather conditions whatsoever, UWISE®OI does what it needs to do: ultimate remote asset management for airports. With adaptive maintenance, we can anticipate every possible technical problem. Via this smart technology a positive contribution is by definition made to the 'total cost of ownership' which gives the solution a clear distinctive position in the market.



TUNNEL & INFRA

A safe landing at Vancouver Airport with TKH smart technologies



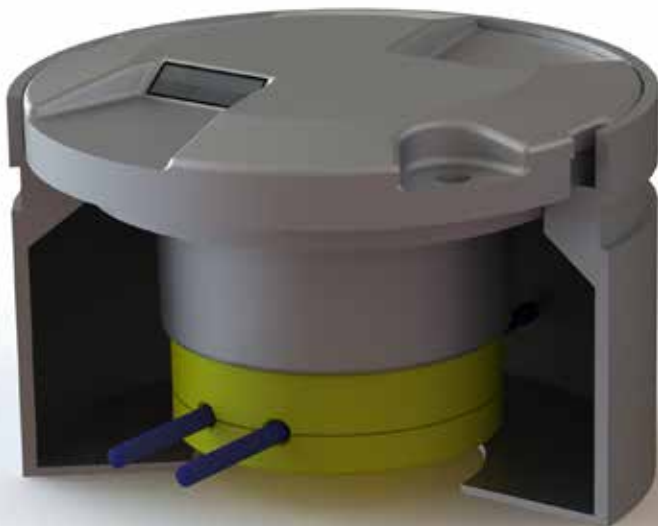
Already in use at airports in the Netherlands, TKH is also enjoying success with the roll-out of the CEDD® Airfield Ground Lighting (AGL) system in other countries. The “safety critical lead-in / lead-out stop bar” system at Vancouver Airport in Canada is now fitted with CEDD®AGL.

CEDD® is a unique connectivity technology for the distribution of energy and data. Vancouver Airport is using the technology for its taxiway lighting system. The CEDD® system was installed in record time thanks to the simplicity and clarity of its design. The system provides a higher level of reliability and greater energy efficiency, and requires less maintenance, thus greatly reducing the Total Cost of Ownership of the system.

SYNERGY IN ‘SMART TECHNOLOGY’

The operating system for CEDD®AGL is connected to various base stations which are subsequently connected to the Apollo Site Management solution, also from TKH, who registers the availability of the system constantly. Breakdowns in the system can cause hazardous situations or delays and can threaten safety during take-offs and landings. Apollo constantly monitors the Point of Base station for faults to avoid those risks.

The site management system continuously registers access to the system, so that the manager always knows who has opened the cabinet, and when. The monitoring is regulated with sensors which measure temperature and humidity and which can detect fires and set off an alarm if anything unusual occurs. Yet another fine example of TKH combining its ‘smart technologies’ in a total solution to create a safe and reliable infrastructure.





FIBRE OPTIC NETWORKS

Management of optical fibre networks revolutionary automated by smart technology



The smart technology of TKH represents a revolutionary approach to the complete management of optical fibre networks. In the first place, the solution for managing optical fibre networks is less human-dependent and also foolproof.

There are no longer technicians who have to go to the PoPs (Points of Presence) to establish network connections, or remove them. Instead of that, 'smart access' is provided. This is ensured by a robot that receives its instructions from a central database made available by the operator or provider. In this database, all data are stored for the management, maintenance and adjustment of the network itself, and all connections in large and small district centres.

EXCLUDING ERRORS

Errors are also excluded: from the operator at the network management location to the PoP in the field where the network connections are made to individual users. Smart sensors in the optical fibre network continuously perform checks on the proper functioning of all its components. This simplifies management and maintenance, for example. It also responds to a large extent to the ever faster changes in the number of users served by service providers and others. Processing these changes manually entails excessive costs and also means unacceptable waiting times for the consumer/end-user.

EFFICIENT MONITORING AND PROTECTION

Apollo Site Management is used to efficiently monitor and protect PoPs in optical fibre networks. These unmanned technical rooms are a major focus of attention for administrators. They must ensure the highest level of continuity, which is why permanent surveillance is needed - not only against intruders and vandals, because fire, extreme temperatures, humidity and power failures can also lead to failure of crucial functions. Since human surveillance entails high recurring costs, more and more companies are opting for Apollo. In addition to security and monitoring, it



offers other benefits. For example Apollo can open the doors of PoPs remotely and record who has been inside, when and for how long. The duration of a visit may be interesting when subcontractors are being utilized, for instance.

Vision & Security

Vision technology consists of camera sensor and 3D laser technology, in combination with the digital processing of visual information to produce usable images or information for interpretation by people and/or machine. At TKH, vision technology among other things is used for inspection, quality, product and process control and plays an important role in, for example, medical solutions, industrial automation (tire manufacturing, automotive, robotics and logistics) as well as in science research. Our security technology makes it possible to control and monitor the built environment in the field of safety, comfort and efficiency, and includes alarms, mission critical communication systems, access and registration systems and evacuation systems.

Smart technology applications

Camera surveillance and security

Video management and -analysis

Guiding & lighting

Access control & registration

Industrial inspection & automation

Robot control and diagnostics

Quality control



Superior video management technology for optimal security of critical infrastructure

Extreme reliability and accuracy of video surveillance is absolutely essential in critical infrastructure.

Examples include the 24/7 video surveillance of tunnels, bridges, locks, motorways, complex traffic intersections and viaducts. VDG Sense offers unlimited possibilities in this area, but also provides security solutions for public buildings, hospitals and car parks, among others.

VDG Sense is an intelligent software solution from TKH. Among other things, it allows all the live images and stored video data to be directly available to the end user, in a user-friendly interface. Integration in every security environment, with or without video, and with every security device, can be realized simply due to the open platform that distinguishes VDG Sense. As a result, VDG Sense is scalable from just a few cameras to thousands of cameras and other connected systems.

INNOVATIVE

But VDG Sense is more than just video surveillance software. The powerful macro-engine allows the end user to define how the system should respond to specific events. 'Event-driven' macros, or pre-defined rules and actions that determine the 'behaviour' of the system, are activated by one or more events. In simple terms: a rule that says "if this ... then that ...".

We combine these intelligent characteristics in a range of infrastructural projects, all over the world. So they provide the most innovative, integrated solutions for superior video management. The software immediately detects any deviation from the norm, on the basis of which, for example, independently and interactively, driving lanes can be closed automatically and at the same time a diversion can be indicated via existing matrix displays above motorways.

FLEXIBILITY

It goes without saying that the software makes it possible to realize completely tailor-made applications. A video recording can be made selectively on the basis of movement detection, or number plate, object or facial recognition. And if the server on which all the data generated by VDG Sense unexpectedly fails, another server automatically takes over the video recording and registration within a few seconds. In other words, VDG Sense monitors itself as well.

In addition, what makes VDG Sense unique is the fact that, in the event of calamities, the images can be examined immediately, including what happened beforehand. That could be via local observation monitors or central control rooms specifically equipped for this purpose. It means that both the operator and emergency service staff have simultaneous and direct access to the video images of the incident in question, which facilitates fast and efficient resolution.





TUNNEL & INFRA

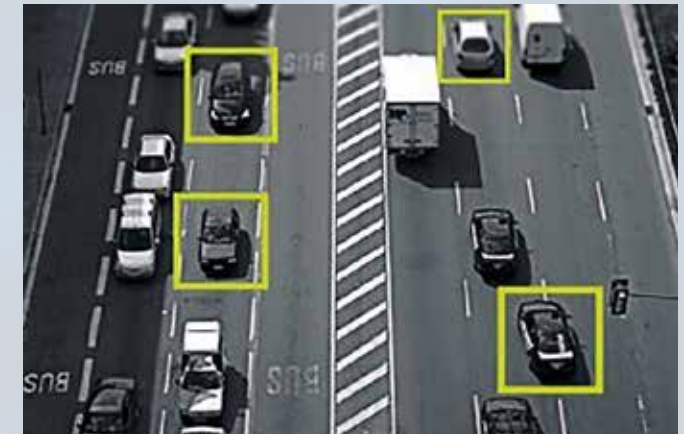
VDG Sense records and protects the Yavuz Sultan Selim Bridge in Istanbul



The Bosphorus is a narrow, natural strait and an internationally important waterway in north-west Turkey. It forms part of the continental boundary between Europe and Asia, and separates Asian Turkey from European Turkey. The Yavuz Sultan Selim Bridge is a motor vehicle and railway bridge over the Bosphorus in Istanbul, to the north of two older suspension bridges. At 322 metres, the bridge is the tallest suspension bridge in the world.

Monitoring the bridge, which is part of the city's new ring road, which also has two tunnels, is essential. The bridge consists of a four-lane motorway in both directions and two high-speed railway tracks, and is used in each direction by approximately 135,000 vehicles per day. VDG Sense records events via AID (Automatic Incident Detection) video registration. In the event of abnormal circumstances, such as a pedestrian on the road or a car driving against the direction of traffic, a 'macro' is generated. These incidents are identified in the central control room via the VDG Sense

application and the operator is informed proactively, with the help of an audible alarm and camera pop-ups, so that he can react quickly and alert the emergency services, if necessary. VDG Sense is also used for retrieving and reviewing videos of incidents.



TKH's smart technology ensures problem-free parking

TKH has a different view on parking to other players in this market. We were the first company to introduce a camera-based parking guidance system.

The smart-sensor technology in the cameras offers many possibilities for the parking manager. It not only provides traffic guidance, but also data gathering and video streaming of traffic flows. Based on this, activities can be detected and analyzed, and action can be taken. This leads to greater safety and security in the parking garages. In addition, the operational efficiency achieved with the parking systems saves the parking manager money.

PARK ALERTS™

In recent years, smart technology in the form of software development has become an increasingly important part of TKH's parking solution. For example, Park Alerts™ software of TKH uses the integrated Licence Plate Recognition (LPR) technology that is already built into its smart sensor system. This allows the manager to pre-define unwanted situations so that they are detected by the cameras as soon as they occur, and an alarm is triggered in the central control room. Park Alerts™ can also be used to recognize returning visitors to the parking garage by means of their licence plate number. The manager can offer these customers special treatment and/or promotions to reward their loyalty.

PARK INSIGHTS

The Park Insights portal comprises a Graphical User Interface that analyzes detailed data about parking trends and behaviour in parking garages and converts them into clear graphs and diagrams. This provides the parking manager with extremely useful information on the basis of which he can take action. For example, it provides insight into peak hours of occupancy, and the favourite parking spaces in the garage. It also enables him to monitor trends in visitor behaviour, so that he can make improvements to the parking process or customer services. He can adjust staffing to the peak hours and identify which parking spaces might be most suitable as short-stay or premium zones. Our smart technology gives our customers a head start in the field of customer service, and ensures smoother parking and more security. Moreover, we provide them with an advantageous revenue model.



PARKING

Excellence customer experience with smart sensor parking technology in Poland



In shopping and entertainment centre 'Galeria Jurajska' in Czestochowa (Poland) visitors will have an effortless parking experience with the patented M4 camera-based parking guidance system (PGS).

The shopping centre can accommodate 2,000 cars and thanks to the PGS system, visitors have a real-time digital guiding to the available places.

Through Park Assist's Park Finder™ application, and exclusive Find Your Car™ feature, Galeria Jurajska visitors will no longer have the issue that they cannot find their car anymore. The application enables returning parkers to find the exact location of their vehicles upon exit by simply typing in their license plate numbers – and/or when inserting their parking tickets at a Park Finder™ enabled pay station.

The M4 smart-sensors with dual cameras located above the driving lane monitors a pair of spaces on each side. This unique vantage point provides the cameras with an

unobstructed view of the parked vehicles – while providing parkers with clear sight lines for easy guidance and navigation. With the parking guidance technology of TKH, excellence in customer experience is offered.



TKH's camera sensor technology sees more than the visible

Today, vision is everywhere: on the road, in your car, in shops, in airports, and in intelligent production systems, to name just a few.

Embedded vision enables smarter devices that can perceive their environment and interact with it in a much more flexible way – almost as humans do. Smart vision technologies help people see even more than with the human eye. TKH supplies high-performance cameras for Machine Vision and Embedded Vision, cameras with advanced image processing and a high variety of functions and features, that deliver the right image for every application – from the visible to the infrared spectrum. The camera solutions of TKH enable people to reach their goals, to be more effective and successful in whatever they do, from raising production standards to detecting disease faster or seeing beyond the visible.

FUTURE-PROOF

Innovative technology and future-proof solutions form the basis for TKH's successful vision technology. The cameras combine the latest high-performance sensors that deliver the best image quality and high resolutions with intelligent, application-oriented image processing and camera control such as auto gain, auto exposure, auto white balance, lens control, Precision Time Protocol, programmable trigger, sequence mode, look-up tables.

The increasing networking of systems and solutions requires that individual components can be easily integrated into systems and exchange information. The software development kit VIMBA of TKH makes it easy to integrate the cameras into a system, for example, regardless of the camera interface or operating system. The designer of a system can start directly by adapting and saving settings himself via a user-friendly interface. The transmission, use and evaluation of the image data is therefore extremely simple. The choice of different housing variants, from angle head variants to board level versions, also facilitates the integration of the cameras on the hardware side, making it as easy as possible to develop truly disruptive vision-enabled technology.

SYSTEM-ON-CHIP

TKH has considered the increasing importance of embedded systems as the highest form of integration and have reinvented camera architecture. The own developed system-on-chip solution combines the performance of a machine vision camera with the advantages of an embedded camera. The heart of the system is the unique ALVIUM® technology. This innovative technology enables TKH to develop an extensive range of cameras that offer a wealth of

built-in image optimization features. At the same time, they are small and have intelligent energy management. And they do not compromise on image quality, performance and durability of the cameras. By transferring image correction and optimization tasks from the host to the camera, system engineers can leverage the host processor's computing power for more demanding tasks.





MACHINE VISION

TKH cameras
inspect door
panels of cars



The options that a customer can choose from when buying a car seem unlimited. However, because of these different options, the production of car parts cannot be standardized, and each part must be configured separately. TKH's vision technology plays an important role in the end-of-line systems for inspection automation and quality control of door panels for cars.

Before the door panels are sent to the factory for final assembly, their working and exactitude must be verified. This means checking the colour of fabrics, leather or seams, the decor finish, the sound system, and the function buttons. Visual inspection plays an important role in this. Up to 17 cameras can be integrated into the end-of-line system for inspection purposes.

SPECIFIC CAMERAS FOR VARIED INSPECTION TASKS

Five-megapixel Manta cameras from TKH are used to perform the colour recognition inspection - for example, the

colour of the leather, the seam and the seam contour. In complex and compact systems, ultra-compact Mako cameras (Mako G-125) are used because of their minimalist housing, which is as small as a sugar cube. Several high-resolution, 29-megapixel Prosilica GT6600 cameras check the course and intensity of the line illumination, in addition to inspecting surfaces. While covering a large field of view, the cameras deliver the resolution of 0.1 mm/pixel that the car manufacturer needs. Fast data transfer and efficient drivers for Windows applications allow a short test time.

The complete inspection of all components takes just 23 seconds, thanks to delayed work-flow steps. The cameras capture images of the door panels from different angles. As a result, inspection images are suitable for many fields of interest.



Optimal efficiency in production thanks to 'FactorySmart® technology' from TKH

TKH is advancing Industry 4.0 by developing 3D smart sensor technology that not only scans the visual field, but processes data to make critical control decisions.

EDGE COMPUTING

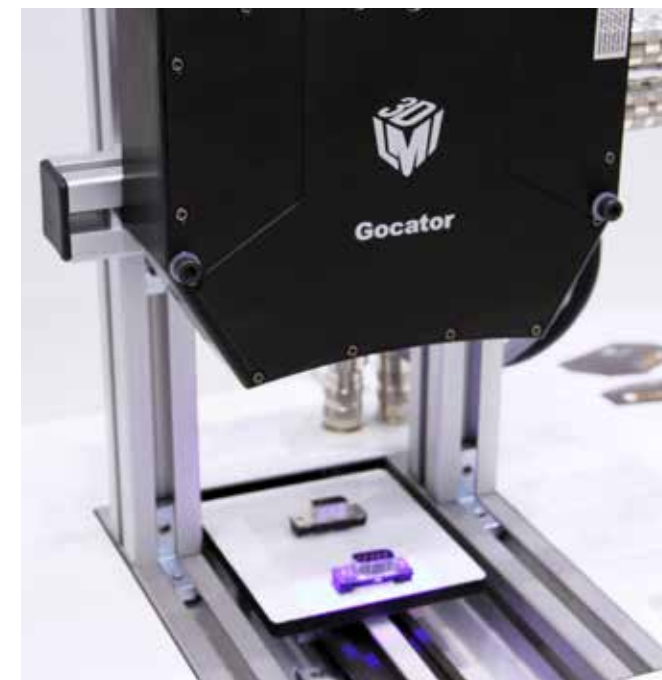
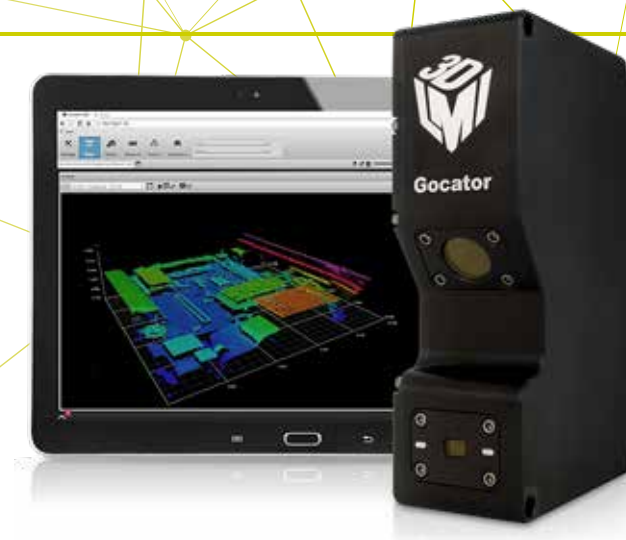
At TKH, we see smart technology as the central enabler toward a complete system for achieving automation, inspection, and optimization processes in today's factories. TKH builds its sensors on the concept of edge computing; meaning data is no longer sent downstream to a PC or the cloud. Instead, our smart sensors process data at "the edge," directly where scanning takes place.

To support this vision TKH has designed the Gocator® Ecosystem, an integrated platform that provides the scalable and distributed architecture required in edge computing systems.

As a machine vision company, TKH recognizes the importance of fusing 2D and 3D data to create accurate real-world models of a scene and then process that scene to detect objects and features. These objects and their features are integral in determining if a product is manufactured and assembled to specification. We continue to invest in developing and expanding these capabilities within our sensors.

WEB TECHNOLOGY

Our vision of smart technology also encompasses industrial automation applications, where 3D sensors provide robots with the "eyes" required to create dynamic solutions that can react to changes in the factory environment. By leveraging web technologies, we are able to provide users with a simple web browser UI to connect to the TKH sensors, visualize 3D scans of parts, apply built-in drag and drop measurement tools, and connect and send control decisions to other factory equipment. And because the machine vision industry presents such a broad scope of measurement challenges, the Gocator is designed to allow customers to embed custom measurement algorithms inside the sensor to create their own unique solutions. In applications where cycle times or parts per minute, require greater speed, the distributed nature of Gocator allows users to offload processing from the sensor to a PC or dedicated hardware accelerators to meet factory speeds. This ensures optimum efficiency in the production environment thanks to TKH's FactorySmart® technology.





MACHINE VISION

HDI 3D Scanners provide solution in robot inspection systems



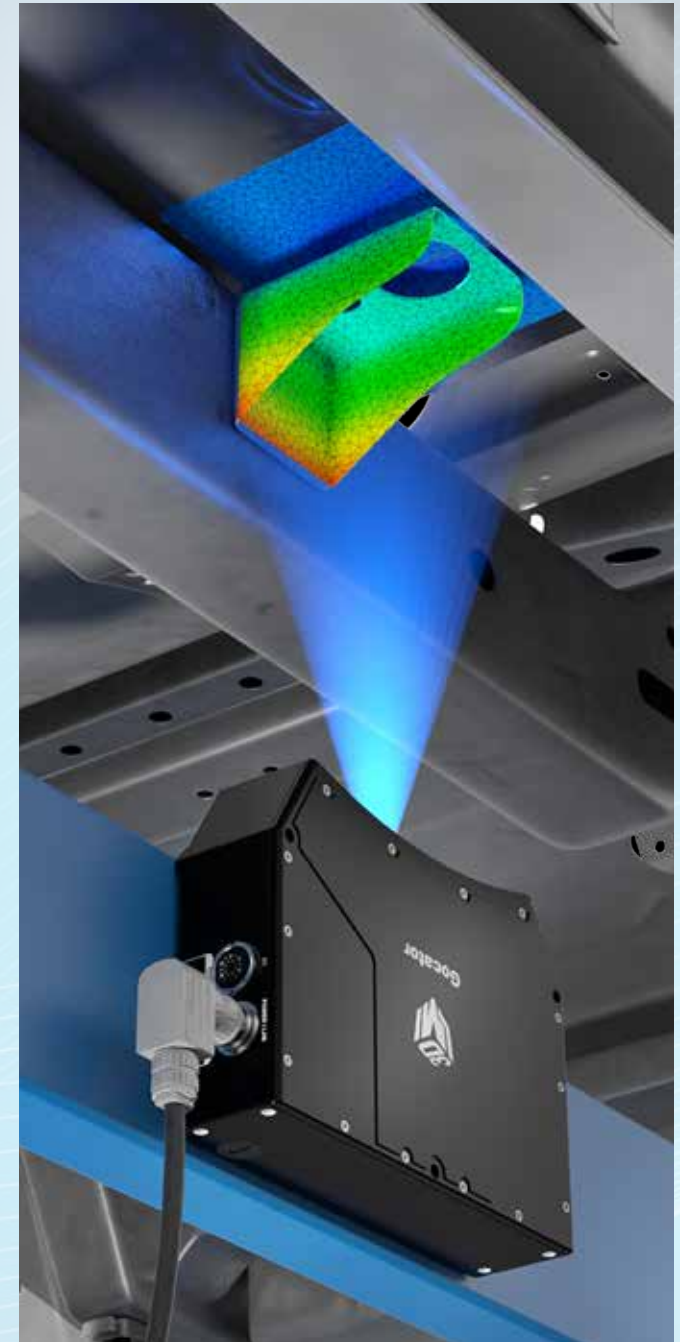
Traditional Contact Measurement Machines (CMMs) can carry out extremely precise measurements, but also present various challenges for effective measurement inspections in the production process, including slow data collection and a lack of automated solutions for processing the measurement data.

Furthermore, there is a requirement that measurement equipment must be able to function in a thermally stable environment and withstand extreme temperatures, in order to guarantee the accuracy of the data. Given these challenges, the possibilities for designing a faster, more flexible 3D metrology solution was explored as an alternative to CMMs.

HDI 3D SNAPSHOT SENSOR

The answer to this issue is an automated robot inspection system consisting of a 'measurement cell' where the robot presents components to 3D scanners at fixed locations. An HDI 3D snapshot sensor is integrated into the robot inspection system. The choice for this sensor is due to its compact construction and the extremely accurate blue LED projection-scan technology. Although HDI scanners are normally used for 3D modelling and reverse engineering, they also have proved as being very effective at scanning and inspecting medium-large components with great precision and at high speeds.

The HDI sensor scans an entire 3D data field in 0.3 seconds, with a precision of 60 micron. The scanners were developed for fast, simple integration into the customer's measurement equipment. Also the HDI software development kit (SDK) can be used to optimize the measurement data from the 3D measurement process itself. Thanks to this, an automated robot inspection system that is ready for the future is developed!



Smart Manufacturing

Smart technology applications

TKH uses its knowledge of automation of production processes for controlling and monitoring of industrial processes as well as in complete manufacturing systems for the production of car and truck tires, tin processing industry and pharmacy. Engineering and assembly of systems, control and analysis software as well as vision technology are the basic building blocks for the distinctive manufacturing systems that TKH delivers. Our technology improves the reliability and flexibility of manufacturing systems with which we can respond to the wishes of a number of specialized industrial sectors such as the tire manufacturing, robot, medical and machine building industries.

Medicine distribution

Tire assembly systems

Tire components systems

Car & truck tire systems

Vision inspection

Product handling systems

Production automation

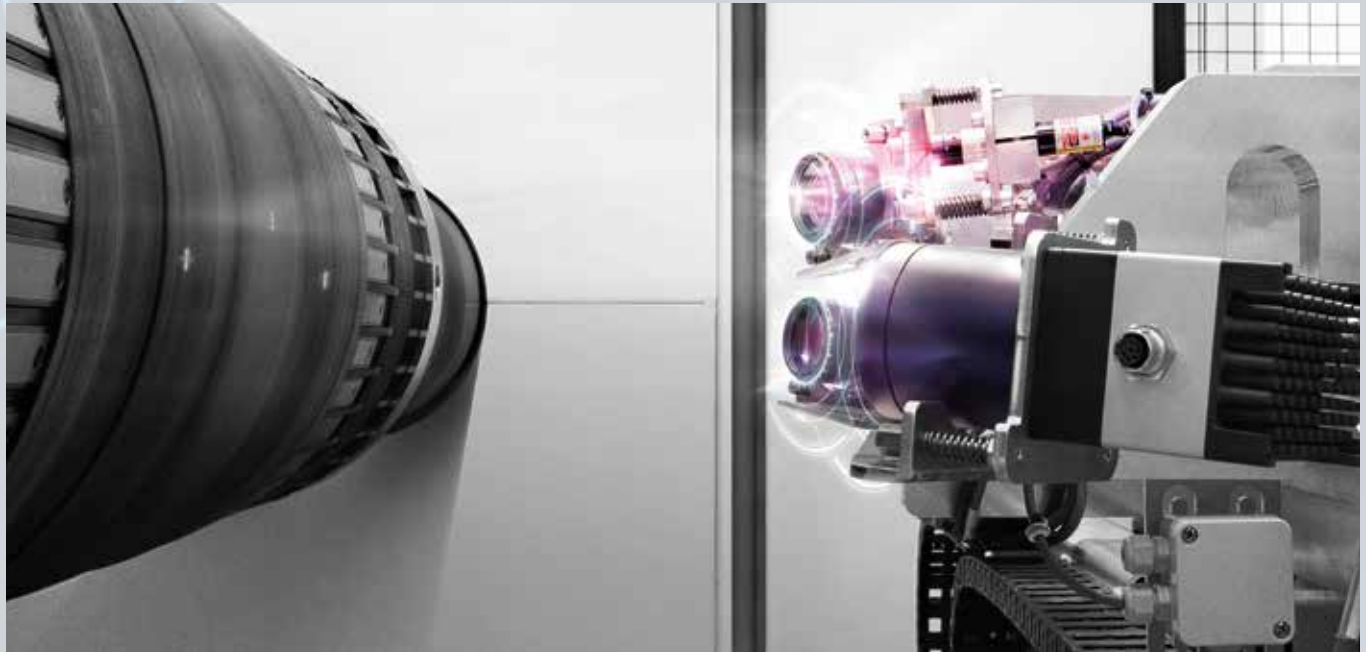
Scada systems





TIRE BUILDING INDUSTRY

VMI PIXXEL: vision and monitoring system provides optimal machine performance



TKH has a strong reputation as an innovator in the tire building industry, where software is also an important part of its manufacturing systems.

The VMI PIXXEL, for example, is a development that focuses on Industry 4.0. Years ago, TKH had already introduced cameras in the automated tire building industry. An extra dimension will be added to this through its vision and monitoring systems under the name VMI PIXXEL. This is not just about specially developed, extremely reliable cameras that deliver a better machine performance; this is a complete platform with the possibility of an online link.

It is an integrated system that makes a separate PC unnecessary because smart software enables the system to detect and correct errors during the process. In addition, the software makes extensive use of visualization, which helps operators to monitor the process more easily.

It provides competitive advantage in two ways. The online link allows data to be read remotely, which makes remote service and maintenance possible, for example. Quality assurance processes are simplified and improved through the availability of output data. This responds to the need of global tire builders to demonstrate that they make quality tires.



Technological advantage in tire building machines thanks to smart technology

It is not a simple matter of course that the technologically advanced tire-building systems of TKH have made the company a global market leader in recent years. This success stems mainly from constant Research & Development (R&D), predictive knowledge of the market, and continuous investment in technological edge. The use of vision technology and extensive automation determine the high level of the manufacturing systems.

EXTREME ACCURACY

Each tire building system is equipped with 12 to 26 inspection cameras, with the company's own dedicated software ensuring extremely intelligent image and data processing. This even makes it possible to distinguish between the black on black of layered rubber. This is much more accurate than is possible with manual measurement. Of course, these rubber connections are visible to the naked eye, but it is not possible to measure them objectively and with comparable accuracy. This unprecedented smart technology is also responsible for the lowest production cost per tire, incomparable tire quality, exceptionally high productivity of up to 2,000 tyres per day, and outstanding flexibility. This flexibility means that a tire building system can be 'converted' for the production of a different type of tire in a very short time, allowing TKH to meet the increasing market demand for the most varied types of tires fitted on passenger cars.

HANDS-OFF & EYES-OFF

In practice, the smart vision technology used in the tire building systems of TKH brings a hands-off & eyes-off approach to manufacturing car tires. A single operator is able to manage multiple tire building systems at the same time. TKH's vision technology monitors the complete tire building manufacturing process with precise checking and inspection.

The accuracy in checking and inspecting the processes that we achieve with vision technology is five to ten times better than the tolerances for the tire building process. Due to this high degree of accuracy, the system meets the quality requirements that the automotive industry expects from its suppliers. This is primarily because the entire measurement system is fully integrated in the production process, with minimal impact on cycle time, and with automated

calibration and validation. Our smart technology makes it possible to actively control the tire building process at various points, and increase quality without human intervention. The process management and inspection are controlled by TKH's cameras.

COMPLETELY NEW: UNIXX

TKH has begun the final phase of development of UNIXX: a revolutionary development in the field of tire building systems. Compared with the current state of technology in the industry, UNIXX offers an unprecedented solution, especially in economic terms. The development is based on Industry 4.0 and the 'Smart Factory' principle. Combining this with a very high level of automation, data-generation and data-processing will result in a highly flexible and reliable new generation of tire building machines. Thanks to 'advanced building technology', this could be described as a pioneering development for the sector.





TIRE BUILDING INDUSTRY

VMI Remote
Guidance offers
remote support



To offer 24/7 support, VMI Remote Guidance is introduced.

VMI Remote Guidance provides remote support and ensures that the manufacturing process is kept running at the customer. This is done through a video link between the customer and the helpdesk. Remote Guidance enables the Remote Support Engineer to watch live with the customer at their machine.

Through Augmented Reality, the engineer can, among other things, add hand gestures to the image at the customer to identify where the problem is, or ask the customer to show a specific component on the screen. In this way, the problem becomes clear quicker and the engineer can direct the customer straight to the solution. The only thing the customer needs is a smart phone or tablet. Moreover, this real-time advice saves considerably on response time, reduces downtime, and ensures a rapid continuation of the

manufacturing process. VMI Remote Guidance is new to the industry and makes it possible to use the latest technology to enable remote professional service.





Summarized financial statements



CONSOLIDATED PROFIT AND LOSS ACCOUNT

In thousands of euros

	2017	2016
Net turnover	1,479,648	1,338,516
Other operating income	4,808	2,468
Total turnover	1,484,456	1,340,984
Changes in inventory of finished goods and work in progress	-13,686	-2,094
Raw materials, consumables, trade products and subcontracted work	828,466	711,822
Personnel expenses	353,791	331,426
Other operating expenses	146,637	131,213
Depreciation	24,774	22,109
Amortization	36,466	32,568
Impairments ¹	1,754	822
Total operating expenses	1,378,202	1,227,866
Operating result	106,254	113,118
Financial income	1,459	1,814
Financial expenses	-8,326	-9,344
Exchange differences	-1,190	-125
Share in result of associates	941	500
Result from available-for-sale financial assets	6,311	433
Change in value of financial liability for squeeze-out, earn-out and put options of shareholders of non-controlling interests ¹	3,847	613
Result before tax	109,296	107,009
Tax on profit	20,744	19,702
Net result	88,552	87,307
Attributable to:		
Shareholders of the company	87,324	85,707
Non-controlling interests	1,228	1,600
	88,552	87,307
Earnings per share attributable to shareholders		
Ordinary earnings per share (in €)	2.08	2.04
Diluted earnings per share (in €)	2.06	2.03
Ordinary earnings per share before amortization and one-off income and expenses (in €) ²	2.30	2.25
Ordinary earnings per share before amortization (in €) ²	2.34	2.31

¹ The change in value of financial liabilities for earn-out, squeeze-out and put options for non-controlling interests was classified in the 2016 financial statements under impairment.

This item has been reclassified and is now presented separately, with the comparative figures adjusted.

² Non IFRS compulsory disclosure.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of euros

	2017	2016
Net result	88,552	87,307
Items that may be reclassified subsequently to profit or loss (net of tax)		
Currency translation differences	-11,897	835
Currency translation differences in other associates	-491	-159
Effective part of changes in fair value of cash flow hedges (after tax)	5,034	1,044
Revaluation of available-for-sale financial assets	795	880
Reclassification to profit & loss account of available-for-sale financial assets due to disposal	-5,837	
	-12,396	2,600
Items that will not be reclassified subsequently to profit or loss (net of tax)		
Actuarial gains/(losses)	22	-560
	22	-560
Other comprehensive income (net of tax)	-12,374	2,040
Comprehensive income for the period (net of tax)	76,178	89,347
Attributable to:		
Shareholders of the company	74,988	87,754
Non-controlling interests	1,190	1,593
Total comprehensive income for the period (net of tax)	76,178	89,347

CONSOLIDATED BALANCE SHEET

In thousands of euros

31-12-2017

31-12-2016

Assets

Non-current assets

Intangible non-current assets	392,152	395,521
Tangible non-current assets	229,212	213,103
Investment property	251	1,491
Financial non-current assets	13,526	25,170
Deferred tax assets	21,838	20,768
Total non-current assets	656,979	656,053

Current assets

Inventories	233,626	206,949
Receivables	217,377	192,967
Amounts due from customers under construction contracts	86,803	100,568
Current income tax	2,805	1,433
Cash and cash equivalents ¹	87,719	88,496
Total current assets	628,330	590,413

Total assets	1,285,309	1,246,466
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In thousands of euros

31-12-2017

31-12-2016

Equity and liabilities

Group Equity

Shareholders' equity	594,072	574,000
Non-controlling interests	8,440	8,520
Total group equity	602,512	582,520

Non-current liabilities

Non-current liabilities	187,335	213,913
Deferred tax liabilities	50,481	52,660
Retirement benefit obligation	8,172	7,957
Financial liabilities	2,890	9,655
Provisions	4,955	5,914
Total non-current liabilities	253,833	290,099

Current liabilities

Borrowings ¹	57,350	51,992
Trade payables and other payables	286,348	248,172
Amounts due to customers under construction contracts	60,267	45,794
Current income tax liabilities	5,762	7,370
Financial liabilities	11,781	13,217
Provisions	7,456	7,302

Total current liabilities	428,964	373,847
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Total equity and liabilities	1,285,309	1,246,466
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¹ Including € 42.0 million (2016: € 29.8 million) cash and cash equivalents that are part of cash and interest pools.

CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

In thousands of euros	Share capital	Share premium	Legal reserve	Revaluation reserve	Investments revaluation reserve	Translation reserve	Cashflow hedge reserve	Retained earnings	Unappropriated profit	Total shareholders' equity	Non-controlling interests	Total group equity
Balance at 31 December 2015	10,607	85,123	34,917	874	4,162	20,920	-3,637	281,727	86,154	520,847	8,570	529,417
Net result									85,707	85,707	1,600	87,307
Total other comprehensive income					880	683	1,044	-560		2,047	-7	2,040
Total comprehensive income	0	0	0	0	880	683	1,044	-560	85,707	87,754	1,593	89,347
Appropriation profit last year								86,154	-86,154	0		0
Capital contribution										0	20	20
Dividends	102	-102						-32,038		-32,038		-32,038
Dividends to shareholders of non-controlling interests								-491		-491	-1,616	-2,107
Acquisition of non-controlling interests								-95		-95	-47	-142
Reversal of revaluation				-459				6		-453		-453
Share and option schemes (IFRS 2)								1,989		1,989		1,989
Purchased shares for share and option schemes								-8,277		-8,277		-8,277
Sold shares for share and option schemes								4,764		4,764		4,764
Change in legal reserve for participations			-1,058					1,058		0		0
Capitalized development costs			9,354					-9,354		0		0
Balance at 31 December 2016	10,709	85,021	43,213	415	5,042	21,603	-2,593	324,883	85,707	574,000	8,520	582,520
Net result									87,324	87,324	1,228	88,552
Reclassification to profit & loss account of available-for-sale financial assets due to disposal					-5,837					-5,837		-5,837
Total other comprehensive income					795	-12,350	5,034	22		-6,499	-38	-6,537
Total comprehensive income	0	0	0	0	-5,042	-12,350	5,034	22	87,324	74,988	1,190	76,178
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 (IFRS 2)								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
Balance at 31 December 2017	10,709	85,021	55,133	188	0	9,253	2,441	344,003	87,324	594,072	8,440	602,512

CONSOLIDATED CASH FLOW STATEMENT

In thousands of euros

	2017	2016
Cash flow from operating activities		
Operating result ¹	106,254	113,118
Badwill not resulting in an operational cash flow		-645
Depreciation, amortization and impairment	62,087	56,729
Share and option schemes not resulting in a cash flow	2,315	1,989
Result on disposals	292	-710
Changes in provisions	543	-2,141
Changes in working capital	24,769	-27,864
Cash flow from operations	196,260	140,476
Interest received	1,461	1,814
Interest paid	-8,091	-8,607
Income taxes paid	-30,044	-29,595
Net cash flow from operating activities (A)	159,586	104,088
Cash flow from investing activities		
Capital contribution		20
Dividends received from non-consolidated associates	634	578
Loans	-483	-585
Purchases of tangible non-current assets	-44,118	-47,393
Disposals of tangible non-current assets	1,000	2,066
Net cash flow on investments and divestments of investment property	1,240	
Divestment of subsidiaries		2,663
Divestment of associates		411
Disposal available-for-sale financial asset	12,097	
Acquisition of subsidiaries less cash and cash equivalents acquired	-5,821	-761
Acquisition of associates	-50	
Investments in intangible non-current assets	-35,064	-28,926
Divestments in intangible non-current assets	226	141
Net cash flow from investing activities (B)	-70,339	-71,786

In thousands of euros

	2017	2016
Cash flow from financing activities		
Dividends paid	-48,048	-34,145
Settlement of financial liabilities regarding put options of non-controlling interests, earn-out and squeeze-out	-4,664	-745
Acquisition of non-controlling interests	316	-142
Purchased shares for share and option schemes	-17,496	-8,277
Sold shares for share and option schemes	7,041	4,764
Repayments on long-term debts	-27,158	-12,042
Proceeds from other long-term debts	380	2,205
Change in borrowings ²	-11,537	10,437
Net cash flow from financing activities (C)	-101,166	-37,945
Net decrease in cash and cash equivalents (A+B+C)	-11,919	-5,643
Exchange differences ²	-1,072	-354
Change in cash and cash equivalents	-12,991	-5,997
Cash and cash equivalents at 1 January	58,704	64,701
Cash and cash equivalents at 31 December	45,713	58,704

¹ The change in value of financial liabilities for earn-out, squeeze-out and put options for non-controlling interests has been reclassified in the profit & loss account. The operating result has been changed due to this reclassification. This has no impact on the cash flow from operations.

² The exchange difference on borrowings, that are part of cash and cash equivalents, have been reported in the exchange differences. Although the impact is not material, the comparative figures have been adjusted for this.

Notes to the Summarized financial statements

SUMMARIZED FINANCIAL STATEMENTS

This condensed Annual Report 2017 is a summarized version of the full Annual Report 2017 of TKH. The full Annual Report 2017 in Dutch is the official reporting document for Dutch statutory purposes. The financial overviews in the summarized financial statements are derived from the audited financial statements 2017 of TKH, which is part of the full Annual Report 2017. 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. In the event of (interpretation) differences and/or discrepancies, the full Annual Report 2017 prevails. The full Annual Report 2017 (including Financial Statements) can be downloaded from the website of TKH: 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 2017. 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.

OVERVIEW OF NET PROFIT DEFINITIONS

In thousands of euros (unless stated otherwise)	2017	2016
Net profit	88,552	87,307
Less: Non-controlling interests	-1,228	-1,600
Net profit attributable to the shareholders of the company	87,324	85,707
Net profit	88,552	87,307
Amortization of intangible non-current assets from acquisitions	15,246	15,723
Taxes on amortization	-4,130	-4,267
Net profit before amortization	99,668	98,763
Less: Non-controlling interests	-1,228	-1,600
Net profit before amortization attributable to the shareholders of the company	98,440	97,163
Net profit before amortization	99,668	98,763
Restructuring costs	6,304	
One-off income due to sale of Nedap shares	-5,837	
Impairments	1,754	822
Change in value of financial liability for squeeze-out, earn-out and put options of shareholders of non-controlling interests	-3,847	-613
Tax impact on one-off expenses and benefits	-2,015	-367
One-off tax charge/(benefit)	1,817	-2,650
Profit before amortization and one-off income and expenses	97,844	95,955
Less: Non-controlling interests	-1,228	-1,600
Net profit before amortization and one-off income and expenses attributable to the shareholders of the company	96,616	94,355

INFORMATION BY SEGMENT

Operating segments

In thousands of euros (unless stated otherwise)	Telecom Solutions		Building Solutions		Industrial Solutions		Other and eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Turnover										
External turnover	191,472	168,531	635,525	574,903	657,459	597,550			1,484,456	1,340,984
Total turnover	191,472	168,531	635,525	574,903	657,459	597,550	0	0	1,484,456	1,340,984
Result										
EBITA	25,888	17,877	51,411	62,406	89,437	79,543	-15,958	-13,318	150,778	146,508
ROS	13.5%	10.6%	8.1%	10.9%	13.6%	13.3%			10.2%	10.9%
One-off expenses			-6,124		-180				-6,304	0
Impairments	111	139	-1,412	-1,971	-453	-623		1,633	-1,754	-822
Amortization	-1,179	-828	-27,099	-24,622	-8,158	-7,091	-30	-27	-36,466	-32,568
Segment operating result	24,820	17,188	16,776	35,813	80,646	71,829	-15,988	-11,712	106,254	113,118
Other information										
Investments in intangible and tangible non-current assets	8,155	12,214	48,042	44,891	27,176	20,386	447	560	83,820	78,051
Depreciation and amortization	4,784	3,370	37,519	33,763	18,627	17,198	310	346	61,240	54,677
Employees (FTE)	702	691	2,655	2,335	2,517	2,460	26	23	5,900	5,509
Balance sheet										
Assets	160,111	149,072	657,779	644,565	435,499	419,285	21,355	23,319	1,274,744	1,236,241
Other associates	9,953	7,375	579	2,847	33			3	10,565	10,225
Consolidated total assets									1,285,309	1,246,466
Liabilities	43,857	36,626	166,964	155,844	202,877	189,812	269,099	281,664	682,797	663,946

In thousands of euros (unless stated otherwise)	Non-current assets ¹		Turnover		Employees (FTE)	
	2017	2016	2017	2016	2017	2016
Geographic segments						
Netherlands	231,212	228,804	279,174	251,290	35%	35%
Europe (other)	269,585	277,507	699,097	611,567	41%	42%
Asia	71,732	75,793	292,879	264,099	16%	16%
North America	54,925	47,638	152,244	168,626	7%	6%
Other	7,687	5,543	61,062	45,402	1%	1%
Total	635,141	635,285	1,484,456	1,340,984	100%	100%

¹ Non-current assets excluding deferred tax assets.

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 activities by business segment is shown. TKH reports its primary business segment information based on these Solutions.

Proposal for profit appropriation

in thousands of euros

Net profit attributable to shareholders € 87,324.

In accordance with Article 33 of the articles of association, we propose paying the holders of (depository receipts of) ordinary shares a dividend of € 1.20 per (depository receipt of) ordinary share.

The dividend will be made available for payment on 14 May 2018.

The dividend for 4,000 priority shares has been set at € 0.05 per share of € 1.00.

Report of the independent auditor

To: the Supervisory Board of TKH Group N.V.

OUR OPINION

The summary financial statements 2017 (hereinafter: 'the summary financial statements') of TKH Group N.V. in Haaksbergen is derived from the audited financial statements 2017 of TKH Group N.V.

In our opinion the accompanying financial statements are consistent, in all material aspects, with the audited financial statements 2017 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 2017
- the following statements over 2017:
 - the consolidated profit and loss account;
 - the consolidated statement of comprehensive income;
 - the consolidated statement of changes in group equity and the consolidated cash flow statement; and
 - 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 5 March 2018.

THE AUDITED FINANCIAL STATEMENTS AND OUR AUDITOR'S REPORT THEREON

We expressed an unqualified audit opinion on the financial statements 2017 of TKH Group N.V. in our auditor's report of 5 March 2018.

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, 21 March 2018

Ernst & Young Accountants LLP
Signed by A.E. Wijnsma

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Ten years overview

in millions of euros

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Consolidated profit and loss account										
Total turnover	1,484	1,341	1,375	1,346	1,198	1,102	1,061	894	726	997
Changes in inventory of finished goods and work in progress ¹	-14	-2	10	-5						
Raw materials, consumables, trade products and subcontracted work	828	712	733	775	699	652	649	545	430	628
Personnel expenses	347	331	326	296	277	234	210	174	158	186
Depreciation ²	25	22	22	20	19	17	15	14	16	17
Other operating expenses	147	131	133	124	103	113	95	88	81	90
Total operating expenses	1,333	1,194	1,224	1,210	1,098	1,016	969	821	685	921
EBITA before one-off income and expenses	151	147	151	136	100	86	92	73	41	76
One-off income and expenses	6			9	-7	-12	-2		-12	
EBITA	145	147	151	145	93	74	90	73	29	76
Impairments	2	1	1	1					4	-3
Amortization	37	33	32	26	26	21	13	11	9	6
Operating result	106	113	118	118	67	53	77	62	16	73
Financial result		-7	-7	-10	-13	-12	-7	-7	-11	-8
Change in value of financial liability for squeeze-out, earn-out and put options of shareholders of non-controlling interests	4	1								
Result on ordinary activities before taxes	110	107	111	108	54	41	70	55	5	65
Taxes	21	20	23	22	12	10	16	14	2	15
Net result	89	87	88	86	42	31	54	41	3	50
Non-controlling interests	2	1	2	3	5	3	1	1		
Attributable to shareholders	87	86	86	83	37	28	53	40	3	50

Key figures (as % unless stated otherwise)	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
EBITA/turnover (ROS) ³	10.2	10.9	11.0	10.0	8.3	7.8	8.7	8.2	5.6	7.6
Net result/group equity ^{2 3}	16.2	16.5	19.3	17.8	13.7	11.7	16.5	13.9	6.4	16.3
EBITA/average capital employed (ROCE)	19.8	20.1	22.1	21.2	15.9	15.9	21.5	20.0	9.8	16.5
Net debt/EBITDA ratio ^{2 3}	0.9	1.0	0.9	1.0	1.5	1.6	0.9	0.7	1.2	1.7
Net result before amortization and one-off income and expenses/turnover ^{2 3}	6.6	7.2	7.4	6.6	5.0	4.5	5.6	5.0	2.5	5.0

¹ Up to and including 2013 the line item 'Changes in inventory of finished goods and work in progress' was included in the turnover.

² 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 2008 up to 2013 have not been restated.

³ 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 (2016: € 3.0 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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Consolidated balance sheet										
Intangible non-current assets	392	395	400	352	349	343	204	168	167	169
Tangible non-current assets ¹	229	215	196	176	199	195	171	157	151	165
Financial non-current assets	36	46	34	28	30	31	23	19	10	9
Total non-current assets	657	656	630	556	578	569	398	344	328	343
Inventories	234	207	194	202	185	197	165	138	115	140
Receivables	306	295	248	288	234	201	187	165	146	225
Cash and Cash equivalents	88	88	179	145	80	66	29	23	44	10
Total current assets	628	590	621	635	499	464	381	326	305	375
Assets held for sale				3		7	7	7	9	3
Total assets	1,285	1,246	1,251	1,194	1,077	1,040	786	677	642	721
Shareholders' equity ¹	594	574	521	483	378	364	356	317	281	292
Non-controlling interests	9	9	9	17	61	60	2	2	1	1
Group Equity	603	583	530	500	439	424	358	319	282	293
Provisions ¹	71	74	71	68	112	105	75	54	64	60
Non-current liabilities	187	214	223	259	259	202	124	55	72	126
Borrowings	57	52	126	59	15	60	4	32	41	71
Financial liabilities	15	23	27							
Other current liabilities	352	300	274	294	252	249	225	217	183	171
Total equity and liabilities	1,285	1,246	1,251	1,194	1,077	1,040	786	677	642	721

Other information in euros (unless stated otherwise)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Solvency (in %)	47	47	42	42	41	41	46	47	44	41
Investments in tangible non-current assets	41	46	38	34	19	25	22	21	11	32
Depreciations of tangible non-current assets	24	23	23	20	19	17	15	14	17	17
Cash flow from operating activities	160	103	182	95	79	75	47	55	152	53
Number of shares outstanding and held by third parties at year end (x 1,000)	42,045	42,161	41,724	41,400	37,985	37,658	37,284	36,885	36,293	35,290
Net result per ordinary share of € 0.25	2.08	2.04	2.07	2.14	0.98	0.76	1.44	1.10	0.07	1.43
Net result before one-off income and expenses and amortization per share	2.30	2.25	2.40	2.23	1.48	1.27	1.63	1.21	0.49	1.34
Dividend per share	1.20	1.10	1.10	1.00	0.75	0.65	0.75	0.61	0.50	0.66
Highest share price during year under review	56.68	38.14	40.50	27.18	26.40	20.86	23.80	19.61	13.95	17.41
Lowest share price during year under review	36.45	28.47	25.35	22.13	18.55	15.41	13.24	12.52	6.35	7.04
Share price at year-end	52.93	37.59	37.44	26.36	25.40	19.50	16.95	19.61	13.95	8.00

¹ 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 2008 up to 2013 have not been restated.

Reporting system CSR

PROCEDURES, STANDARDS AND GUIDELINES

In the annual report 2017, we provide an account of, among other things, our performance in the area of CSR during the year under review from 1 January 2017 up to 31 December 2017. The legal publication date of the report is 22 March 2018. We discuss the topics that have been an integral part of our CSR policy for several years and report on them in line with the Global Reporting Initiative (GRI) 4.0. The report's content and framework are based on a materiality analysis that identifies the material issues of greatest relevance for TKH, which are then used to decide the scope and boundaries of the CSR reporting. The Global Reporting Initiative (GRI) guidelines were used to define and set our KPIs. In the GRI 4.0 guidelines, it is important that a company makes an estimate of issues that are of sufficient importance to merit reporting. The significance (materiality) of the issues to be selected is determined through analysis of the impact of the key data on people, the environment and society, in relation to the value stakeholders attach to those issues. See the materiality matrix and the GRI index.

The principle of Integrated Reporting is further implemented in the management report of the Annual Report 2017. 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. The format of the IIRC model is also held with the explanation of the trends in the CSR report and the risk management section.

In compiling the CSR report, we used information and results derived from our monthly internal reporting structure and available from our organizations as part of their compliance with the ISO 14001 environmental management system, the OHSAS 18001 health & safety management system, the CO₂ Performance Ladder. The CSR Performance Ladder and the Dutch Corporate Governance Code. In addition, we used the findings and recommendations on the basis of providing information on the CDP platform.

Emission factors are values that are used to convert the amounts of energy used, such as liters of petrol or cubic meters of natural gas,

into the amount of CO₂ emissions they produce. In calculating the CO₂ 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.

To measure and report the CO₂ emissions, we use the distribution in the scopes of the Greenhouse Gas (GHG) protocol.

- Scope 1 covers the CO₂ emissions caused by fuels that we purchase and consume by ourselves, and concerns mainly gas, petrol and diesel.
- Scope 2 covers CO₂ emissions from electricity consumption.
- Scope 3 emissions covers CO₂ from fleet (commuting), waste generated from own operations and transportation of goods.

Our focus remains primarily on scope 1 and 2, because these scopes are directly affected by our operations and most of our emissions occurs within those scopes. We have expanded our internal dashboard with scope 3 components, but have not yet implemented a scope extension for CO₂ emissions in our calculation model. We expect to be able to make this step in the coming year, also to be able to supplement the information on platforms such as the CDP.

This list was compiled with the utmost care and offers TKH the advantage of being a reliable, verifiable source for almost all emission factors. The list also incorporates the latest findings with regard to including supply chain emissions in the production of energy sources. In addition, in calculating the Carbon Footprint, we adopt the 'The Greenhouse Gas Protocol' reporting standard of the World Resources Institute and the World Business Council for Sustainable Development (www.ghgprotocol.org) and we are also guided by the MJA3 Covenant. The choice for the MJA3 covenant is a logical continuation for us in the European legislation EED, which was introduced in mid-2015 and based on the European directive 2012/27/EU. Due to the implementation of this guideline, TKH subsidiaries that fell within a defined scope have to execute a mandatory energy audit. This energy audit is a systematic four-yearly procedure with the aim of collecting information on current energy consumption and identifying and quantifying the possibilities for cost-effective energy savings.

The products supplied by TKH satisfy the European directives REACH and ROHS. REACH is a European system for registering, evaluating (risks to people and the environment) and authorizing chemical substances in Europe. ROHS is a European directive that prohibits certain hazardous substances from being used in electrical and electronic devices.

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). 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.

For the circular economy, we are focusing on the ambitions defined by Netherlands Circular in the chain innovation program 'Plastic and rubber in the underground infrastructure' and the Dutch Infrastructure Companies in their 'Mission Statement Fair Infra'. We also focus on the priority letters and other communications of the Dutch Association of Investors for Sustainable Development (VBDO) on this theme.

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™'.

SCOPE AND CHANGES COMPARED TO LAST YEAR

The CSR policy is not adjusted in 2017. 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. The target for waste reduction has been adjusted to a maximum of 5% of the material consumption of the most relevant raw materials

each year. Unless otherwise stated, the data are based on all our domestic and foreign subsidiaries. Where this is not the case, 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 of following the year of 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. Some changes have been made in the materiality matrix regarding the relevance of some themes within our organization or from our stakeholder's perspective among others 'privacy' to material. Like last year we do not report on those topics that are less material.

During the reporting period, there were no changes to the legal structure, ownership or supply chain of the organization.

INTERNAL AUDIT

The data have been audited by the responsible company officers as to plausibility and progress using the Cognos financial reporting model. Data were verified by TKH's financial department, with PWC as external advisor. All reported differences greater than 10% compared with the previous year have been explicitly investigated.

TKH does not have the CRS report verified externally. At the moment, the priority lies in investing time and commitment in implementing sustainability within the organization. However, we did have an external advisor check the CRS chapter against the GRI 4.0 guidelines. We have also made further steps regarding integrated reporting. Internal audit devotes attention during its audit work to CSR themes including human rights, code of supply and themes from the TKH code of conduct.

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 2017.
- The representatives of (institutional) investors and some investment funds provide a list of priorities every year.

Management

- CSR is a recurring theme in the quarterly meetings with the subsidiaries. CSR also has a separate chapter devoted to it in the format for the subsidiaries' budget and strategic plans, in which the management is asked to contribute proposals for actions and improvement.

- CSR is a recurring theme at the international management conference and during the meetings with financial controllers.

Employees

- The Central Works Council has discussed the CSR policy as part of the annual report.
- Sub-issues are managed by setting up various steering groups for CSR themes.
- Through employee satisfaction surveys.
- Via trainings and educations, among others at confidential officers.

Customers and suppliers

- Input through value-chain consultation and discussing themes that concern the code of supply.
- Through customer satisfaction surveys.

Ministry of Economic Affairs

- TKH is included in the Transparency Benchmark. The annual questionnaire and accompanying letter provide an indication of the issues to which the government wants more attention devoted.

Stakeholders dialogue

- Through the stakeholder dialogue on 19 December 2017, the SDGs were discussed.

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 co-operation with TKH's Director Internal Audit in relation to his auditing of CSR themes during the audit reviews. Contacts with the confidential officers rely on the operation of the TKH Code of Conduct and the associated Whistleblowers regulations.

New CSR initiatives are preferably developed in working groups. This expedites the building of support within the Group and makes implementation more efficient and effective. Initiatives in the value chain are

always attended by commercial managers in order to guarantee a pragmatic approach.

In conducting the stakeholder dialogues, we work with executives from our subsidiaries, business line managers, account managers and HR. The Executive Board and Management Board is frequently involved in these discussions

The Executive Board discusses progress in CSR every quarter with the (clusters of) subsidiaries. This is based on financial and operational reports in which CSR is included. We have embedded CSR in our Cognos financial reporting system so that it is an integral part of our information system.

For more information about TKH's sustainability program, please contact Renate Dieperink MBA (r.dieperink@tkhgroup.com). 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.

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 2017 but are not defined in any law or in IFRS. The European Securities and Markets Authority (ESMA) have issued guidelines that apply as from 3 July 2016 for the use and disclosure of alternative performance measures. The terms TKH sees as an alternative performance measure are included in this chapter of the Annual Report. The alternative performance measures are marked with * and includes a definition as required by the ESMA directive.

Bandwidth the transmission capacity of a media, expressed in the number of bits per second. The maximum transmission capacity is 1 Gigabit per second for copper and 600 Gigabit per second for optical fibre.

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.

Broadband connection a collective name for a connection with a high transport capacity. Technically, such a connection can be established by a coax modem, an ADSL modem or using a Fibre To The Home connection. The latter solution currently offers the fastest (internet) connection with a transport speed of at least 10 megabits per second. Symmetric it is many times faster than connections with ADSL and coax modems.

Building Solutions solutions in the area of efficient electrical applications within buildings through to technical systems that, combined with software, provide efficiency solutions for the care, parking, infra and security sector.

Cable accessories products with a direct relation to cable and the installation of cable. For example attachment materials (cable caterpillars, swivels, cable terminals, connectors), coding and marking systems (markers, heat shrink tubing, connectors) and tools (cutting, stripping and crimping of lugs).

Capex (Capital Expenditure) investments in tangible and intangible non-current assets. Capex spending is the one-time investment.*

Capital Employed group equity plus long-term debt plus short-term borrowings less times and cash equivalents.*

Closed-circuit television (CCTV) is a term for an image link communication via a closed circuit or network, or in other words, television via a closed connection. There is an absolute control of, or delimiting, the receiving points or spectators.

Data communication communication of digital information between computers.

Debt leverage ratio (Net debt / EBITDA) Long-term debt plus short term borrowings minus cash and cash equivalents divided by EBITDA.*

Dividend payout ratio This ratio indicates what portion of the net profit is paid out to shareholders. (Dividend / net profit after tax) times 100.*

EBITA Result before interest, taxes, impairments and amortization.*

EBITDA Result before interest, taxes, impairments, depreciation and amortization.*

Electro technical engineering / electronics is engaged in active and nonlinear components (transistors, electron tubes and other semiconductors). In electrical networks, active components resistors, capacitors, coils are merged into switches.

Extramural care a form of intensive home care for people with nursing indicator but not included in institution. The goal is to offer care to independently living elderly with nursing care, so moving to an intramural environment can be delayed or prevented.

Fibre To The Home the last piece of the network to the user is fitted with optical fibre cable.

ICT (information and Communication Technology) rapidly progressing integration is occurring between information technology, that is to say computers, and data and telecommunication.

Indoor telecom telecommunication facilities in the home.

Industrial Solutions consist of advanced solutions for production automation, car and truck tire building systems and industrial applications in the area of specialty cable and cable accessories.

Industry 4.0 improving the efficiency of production through the integration of machinery to the internet. Production will be adjusted so that more is produced, fewer mistakes and more service-oriented production is possible.

Innovations TKH at least 15% of sales realized from innovations introduced in the previous two years.*

Installation cable cable for installations for power supply with a tension of maximum 1,000 Volts.

Internet of Things (IoT) (temporary) connecting devices to the internet to transfer data.

Intramural care healthcare for an uninterrupted stay of more than 24 hours which is offered in a healthcare institution such as a hospital, nursing home or institution for the mentally handicapped.

LEAN a method to prevent all waste from the production process looking at the value added in a production process. The customer demand is thereby leading within the production process.

Market capitalization The number of ordinary shares outstanding times the closing share price.*

Net result per share Net result / weighted average shares outstanding. This ratio indicates how much profit a company has available per share.*

Operating systems systems for controlling, regulating and monitoring of industrial processes, of which the intelligence of the system is composed by computers, PLCs (Programmable Logical Controller) or CNCs (Computerized Numerical Controllers).

Operational Excellence the pursuit of excellence results in operational processes. This is done through a high efficiency and optimum quality of the processes, via a low failure rate and waste percentage, reduction of production costs, full control over the process flows, an innovative and flexible organization as well as to meet customer needs.

Opex (Operating Expenditures) operating expenses. Opex expenses are the recurring costs of a product or system.*

Optical fibre cable is a cable with one or more coated conductors of very pure glass for the transfer of signals on a carrier wave of light; applied in data and telecommunication. Optical fibre production optical fibre is produced in a 25-meter high drawing tower in conditioned ultraclean conditions.

Outdoor telecom telecommunication facilities outside the home.

Passive and active components in data and telecommunication a difference is made between components which do and do not need power.

Point of Presence (POP) this is the centre (heart) of the network where all connections are made and active equipment is installed and operated.

Preform is a tube of glass and can be compared with a large model of an optical fibre. The preform is much shorter and thicker than the optical fibre, but otherwise an exact copy. The optical fibre is created by pulling out the preform. This is done by inserting the end of the preform in a furnace to be heated to above 2,000°C. At the bottom of the

preform a glass drop appears. This is picked up and formed into an optical fibre by pulling the fibre till it has the desired diameter.

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 aluminium or copper conductors for conveying the generated energy and a fiber 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 orga-

nized 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 -Fiber 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 2017.

The full Annual Report is available in Dutch and English and can be downloaded from the website of TKH: 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 2017 will take precedence.

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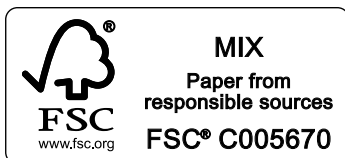
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For actual information about TKH Group and our sustainability developments please visit our website www.tkhgroup.com.

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