

MANAGEMENT REPORT

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GENERAL DEVELOPMENTS

Developments in the year under review were strongly impacted by the COVID-19 pandemic, although the first months of the year developed positively and the actions of the ‘Simplify & Accelerate’ program introduced in 2019 were clearly visible. The impact from COVID-19 was most visible in the second quarter due to the drop in demand due to lockdowns at both our customers and customers of our customers.

Commissioning and installation work were also made more difficult by restrictions at our customers’ locations. This, as well as lockdowns within some of our operating companies and higher absenteeism due to strict measures already in case of mild symptoms of the COVID-19 virus, had an impact on our employees. Obviously, the health of our employees was the first priority and many measures were taken to avoid the risk of contamination. With the great dedication of our employees, flexibility was shown to be able to continue to serve our customers with as few negative effects as possible and to support our customers where possible.

Despite the impact of COVID-19, there were also activities that showed good growth, including the Machine Vision activities that benefited from the introduced innovations for consumer electronics and medical applications as well as the growth from the energy transition for connectivity solutions for energy networks. From the third quarter onwards, the impact on our activities was less severe, but investments for capital goods lagged significantly, as a result of which the order intake within Industrial Solutions was low. This recovered in the fourth quarter with a high order intake, mainly driven by reduced uncertainty about the pandemic due to the announcement that a vaccine was on the way by the end of the year. The strength of the TKH strategy was

expressed in the fact that the ROS remained upright during the year despite the strong decline in turnover and amounted to 10.5%. This was mainly due to the tightening of the strategy and the ‘Simplify & Accelerate’ program. The execution of the aforementioned program is well on schedule. This also applies to the progress of the realization of the innovation pillars that should contribute to further growth of the vertical markets in the coming years.

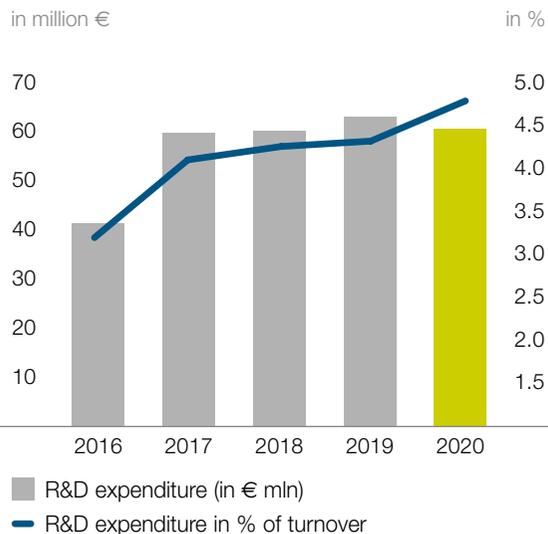
The year 2020 saw the following significant strategic developments:

- Machine Vision – First large order for 2D-embedded vision technology for COVID-19 vaccine analysis.
- Machine Vision – Expansion of market share with 3D vision technology and confocal inspection technology within consumer electronics.
- Tire Building – Breakthrough for the UNIXX, the ground-breaking new technology for car tire production, with first serial production at a launching customer.
- Infrastructure – Strong growth in the market for energy cables as a result of the investment impulse driven by the energy transition for which additional investments in production capacity have been initiated, that will be operational from Q3 2021.

- Infrastructure – Acquisition of substantial order for Airfield Ground Lighting (CEDD/AGL technology).
- Marine & Offshore – Order intake of subsea cable systems that will enable growth to more than € 40 million turnover in 2021.
- Care – Breakthrough in North America for the Indivion, an medicine dosing and distribution system.
- Divestment of ZTC in China – Production of commodity data cables with low margins.
- Divestment of Cruxin in the Netherlands – System integration activities with insufficient alignment with TKH strategy.
- Integration of TKH’s Dutch cable production activities at one location and closure of Ittervoort production facility.
- Termination of unprofitable industrial cable production activities.
- Introduction of cost ratio program onderdeel van, part of the Simplify & Accelerate program, with a more short-term focus on financial returns.

A follow-up was given to the program to further focus the portfolio of activities in the interest of shareholder value creation and the creation of an optimal return on the activities in the most suitable environment. Where limited value creation is possible in the TKH environment, this should lead to divestment of activities in the coming years. In the meantime, € 260 million of the intended € 300 to € 350 million turnover in divestments has been realized. The remaining activities to be divested were put on hold during the year under review, because the return on these activities and the valuation multiples due to COVID-19 would not lead to the desired level of return. These activities were restarted in the fourth quarter.

R&D EXPENDITURE

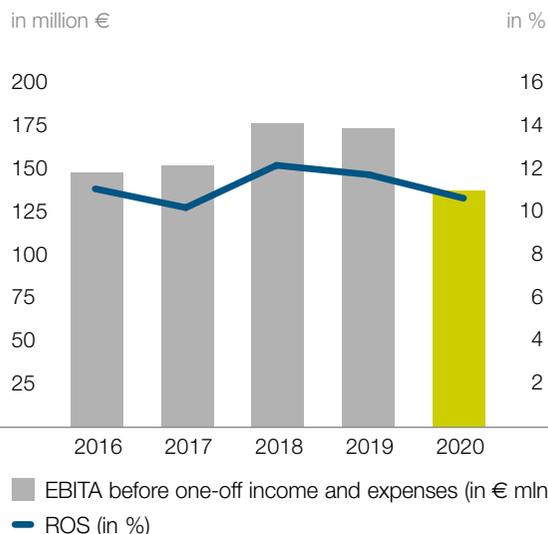


TKH's solid financial position meant that customers were helped during the year to overcome limitations and forced shifts in deliveries by keeping stocks at TKH. This resulted in working capital rising to over 20% of turnover during the year. At the end of the year, this returned to 12.1% of turnover, well within the target bandwidth of 12-15%.

In the fourth quarter it became clear that there was a prospect of a vaccine and, in combination with TKH's confidence in its strategy, financial position and future, a share buy-back program was announced in November for an amount of € 25 million with the aim to withdraw these shares in due time. The fact that the dividend announced in March was paid out showed confidence in the solid foundation. The net debt/EBITDA realized at 1.6 at year-end confirms that there was sufficient room for the share buy-back and to pay out the dividend, taking into account the uncertain circumstances arising from the impact of COVID-19 and the result realized in 2020 and the generation of cash.

company, it is necessary to stay up-to-date with regard to the technological lead. The ambition for the growth to be achieved requires a strong innovative character and the associated R&D costs and investments. It is important here that the effectiveness of the R&D investments is closely monitored, as well as the intended return on these investments and expenditures. The fact that the innovation turnover, consisting of innovations introduced to the market in the past two years, was again at a high level at 21.1%, confirms the effectiveness of our R&D efforts. Our innovations have shown good progress, both in terms of technology and market penetration. Major breakthroughs include innovations in machine vision for consumer electronic manufacturing systems, UNIXX tire building technology, subsea cable systems and CEDD/AGL connectivity technology, as well as the Indivion robotic medicine packaging technology. The introductions and acquired orders provide a strong basis for growth and further value creation.

EBITA AND ROS DEVELOPMENT



The effect of the sharp decline in sales and the accompanying decline in profit had a major effect on the ROCE, despite the fact that the return on sales remained intact. The ROCE came in at 14.0%, falling behind the set target of a bandwidth of 22-25%. However, the profit capacity of our activities in the medium-term is unchanged, which means that the set bandwidth is fully maintained.

The implemented integration projects and efficiency improvements will have an annual positive effect on the result from 2021. The one-off costs associated with this amounted to € 8.9 million.

The geographic distribution of turnover remained reasonably in line with the previous year, despite the intensification of divestment activities. The turnover share in the Netherlands rose to a level of 24% of total turnover. The turnover share in Europe excluding the Netherlands increased slightly to 43% and the turnover share in Asia decreased slightly to 19%. The turnover share in North America remained unchanged at 12%. The turnover share of the other geographic areas was 2%.

R&D expenditure decreased by € 2.6 million to € 60.6 million due to cost savings. The outlook within the core markets in which TKH operates remains positive. As a technology

IMPACT COVID-19

Since the outbreak of the pandemic, COVID-19 has had a negative impact on both TKH's turnover and result. For one, the stricter measures in various countries in the course of the year had a substantial impact. The (temporary) easing of restrictions, especially in the summer and autumn, did restore opportunities for deliveries, but these did not recover to previous levels. In order intake, a negative impact of COVID-19 was particularly noticeable in the second and third quarter.

TKH has taken a large number of measures to minimize the impact of COVID-19 on its business operations. It is difficult to quantify the impact of COVID-19 on the 2020 results with any degree of accuracy. For the financial impact of COVID-19, the following elements had an impact on our results:

- The health of our employees and the continuity of our business were our main priority. By taking measures at an early stage, we were able to limit the impact on our business operations. The measures taken, aimed at providing a safe and healthy working environment, resulted in a significant drop in productivity and coverage at our production companies. In addition, demand was lower due to the fact that our customers had problems in the realization of projects. Investments were reduced or postponed in some segments. This was particularly applicable for investments for airports, car parks, shipbuilding and the industrial sector.
- TKH made limited use of the available COVID-19 government support, mostly consisting of schemes to retain jobs or a form of short-time working. This led to a temporary reduction of personnel costs of € 6.8 million. TKH did not make any use of government aid in the Netherlands. The accounting policy used for processing

this government support received is included in note 1 of the full financial statements under 'Government grants'.

- TKH introduced various cost-saving measures, but we did not incur any significant reorganization costs directly related to COVID-19.
- TKH has not received any significant rental discounts as a result of COVID-19.
- TKH evaluated additional scenarios in its impairment assessment, which resulted in the recognition of an impairment loss of € 2.0 million, mainly due to COVID-19. For the assumptions and scenarios used, reference is made to note 3 of the full financial statements. Reference is made to note 16 for the valuation of deferred tax assets.
- Delayed deliveries of various projects, particularly in the Industrial Solutions segment, due to lockdown situations at customers, have increased working capital by an estimated € 10 million at year-end 2020. On the other hand, deferrals of tax payments had a downward impact of € 22 million. This deferred tax will be paid in the first half of 2021. TKH's increased focus on working capital management also led to a substantial reduction in working capital in the fourth quarter of 2020. Furthermore, TKH does not foresee any significant negative developments in the payment behavior of our customers to date.



- Important investment programs, such as ongoing R&D programs, have been continued. TKH has limited other investment levels where possible.
- TKH has a solid financial position and the debt leverage remains well within the covenant agreed with the banks with a debt leverage of 1.6 at 31 December 2020.

For the expected impact of COVID-19 on 2021 we refer to the section 'Outlook'.

FINANCIAL DEVELOPMENTS

Turnover declined by € 200.3 million (-13.4%) to € 1,289.4 million in 2020 (2019: € 1,489.6 million), largely due to the impact of COVID-19. TKH recorded a 9.9% organic decline in turnover. Acquisitions made in 2019 contributed 1.9% to turnover. On balance, raw materials prices had a minimal impact on turnover, while currency exchange rates had a negative impact of 0.4%. Divestments led to a 5.2% decline in turnover.

Industrial Solutions recorded the biggest organic decrease in turnover, with a decline of 20.2%. Telecom and Building Solutions recorded declines of 8.4% and 2.9% respectively.

The gross margin increased to 49.4% in 2020 from 48.2% in 2019. This increase was partly driven by divestments and acquisitions within Building Solutions and the higher turnover share of Machine Vision.

Operating expenses before one-off expenses fell by 8.0% compared with 2019. The integration programs, cost savings and lower sales costs as a result of COVID-19 accounted for a significant part of the lower expenses. However, as a percentage of turnover operating expenses increased to 38.9% in 2020 from 36.6% in 2019. This relative increase was related to the divestments made in 2020, as well as lower productivity and coverage in TKH's production companies as a result of COVID-19. Depreciations, excluding one-off results from divestments, amounted to € 45.5 million, € 0.1 million higher than in 2019.

The operating result before the amortization of intangible assets and one-off income and expenses (EBITA) declined by 21.4% to € 135.5 million in 2020 from € 172.5 million in 2019. EBITA in the Telecom and Industrial Solutions

segments fell by 25.0% and 41.8% respectively. Building Solutions recorded a 2.4% rise in EBITA. The ROS fell to 10.5% (2019: 11.6%).

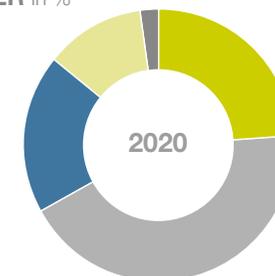
For the full year 2020, TKH recognized a one-off expense totaling € 8.9 million (2019: € 18.3 million) and an impairment of € 4.0 million (2019: € 5.0 million). These were primarily related to the execution of the Simplify & Accelerate program and the impact of COVID-19.

The amortization expense was € 3.7 million higher at € 53.7 million, due to the high R&D investments in recent years.

Financial expenses fell by € 0.8 million to € 8.4 million in 2020, due to lower interest rates. The effect was cancelled by the negative impact of exchange rates of € 2.0 million (2019: negative impact of € 0.9 million). The result from associates increased by € 1.9 million, largely due to a book profit on divestments. The operating result from associates was lower due to the impact of COVID-19 and one-off expenses.

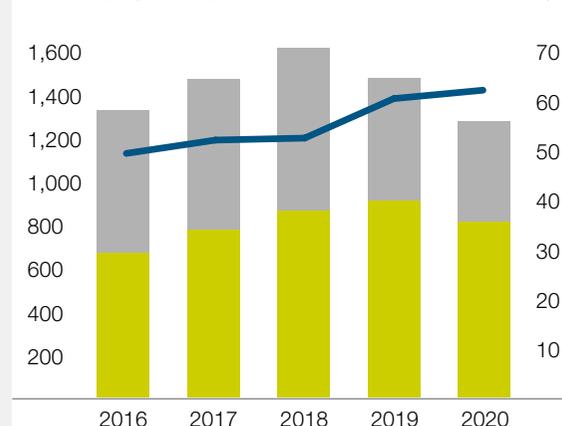
The effective tax rate stood at 24.5% in 2020 (2019: 23.1%). The higher tax rate was related to divestments and lower profits at companies with lower tax rates.

GEOGRAPHICAL DISTRIBUTION OF TURNOVER in %



	2020	2019
Netherlands	24	20
Europe (other)	43	43
Asia	19	22
North America	12	13
Other	2	2

TURNOVER FROM VERTICAL GROWTH MARKETS in million €



Year	Turnover vertical growth markets (million €)	Turnover other markets (million €)	Vertical growth markets in % of turnover
2016	~680	~680	~50%
2017	~780	~700	~52%
2018	~880	~720	~55%
2019	~920	~550	~62%
2020	~820	~470	~64%



DIVIDEND PROPOSAL

It will be proposed to the General Meetings that it authorize the payment of a dividend of € 1.00 per (depository receipt for a) share (2019: € 1.50). On the basis of the number of shares outstanding held by third parties at year-end 2020, the pay out-ratio amounts to 59.0% of the net profit before amortization and one-off income and expenses attributable to shareholders (2019: 59.8%) and 87.3% of the net profit attributable to shareholders respectively. It is proposed that the dividend be paid out in cash and charged to the reserves. The dividend will be payable on 14 May 2021.

The net profit from continued operations before amortization and one-off income and expenses attributable to shareholders fell by 33.2% to € 70.3 million in 2020 (2019: € 105.3 million).

The net result for 2020 amounted to € 47.5 million (2019: € 113.9 million). The divestment of the majority of TKH's industrial connectivity activities, accounted for as 'discontinued operations', resulted in one-off income of € 45.2 million in 2019. Earnings per share from continued operations before amortization and one-off income and expenses amounted to € 1.69 (2019: € 2.51). Ordinary earnings per share were € 1.14 (2019: € 2.72).

The cash flow from operating activities amounted to € 187.8 million in 2020 (2019: € 182.2 million). In 2020, the cash flow was boosted by a decline in working capital, while there was little change in 2019. At year-end 2020, working capital as a percentage of turnover had fallen to 12.1% (2019: 13.0%), and therefore remained within the bandwidth target of 12-15%. The cash flow from investments in and divestments of property, plant and equipment amounted on balance to € 25.6 million in 2020, and were lower than in recent years (2019: € 30.6 million, partly due to the divestment of business premises held for sale). The investments in

intangible non-current assets related to development costs, patents, licenses and software fell to € 39.2 million in 2020 (2019: € 40.4 million). TKH spent € 0.5 million on acquisitions (2019: € 65.5 million). Divestments boosted the cash position by € 21.2 million (2019: € 83.5 million).

Solvency fell slightly to 42.3% (2019: 43.6%). Net bank borrowings, calculated according to TKH's bank covenants, fell by € 38.8 million from the level at year-end 2019 to € 261.8 million at year-end 2020. The net debt/EBITDA ratio stood at 1.6, which means TKH is operating well within the financial ratio agreed with its banks.

At year-end 2020, TKH employed a total of 5,583 FTEs (2019: 5,980 FTEs). Divestments reduced the total workforce by 248 FTEs. In addition to this, TKH had 121 (FTE) temporary employees (2019: 310 FTEs).

DEVELOPMENTS PER BUSINESS SEGMENT

TELECOM SOLUTIONS

Turnover in the Telecom Solutions segment declined by 8.6% to € 183.1 million. The organic decline in turnover was 8.4%, while currency exchange rates had a negative impact of 0.2% on turnover.

EBITA fell by € 7.7 million. This led to a 12.6% decline in the ROS.

FIBRE OPTIC NETWORKS – The COVID-19 restrictions had a strong negative impact on deliveries across Europe, especially in France. Due to the lockdowns and restrictions at customers, TKH was not yet able to translate increasing demand for bandwidth in combination with the roll-out of 5G networks into higher order intake. This resulted in lower production levels, which in turn led to lower coverage. In China, the lower market volumes put pressure on prices for fibre optics. TKH was largely able to absorb this price effect due to the higher turnover share of the connectivity systems portfolio.

OTHER MARKETS – TKH was able to absorb part of the decline in other markets thanks to the growth in broadband products for home offices. However, a number of projects were postponed as a result of COVID-19. In mid-2020, TKH terminated the production of the telecom copper cable portfolio, after the turnover of this business had already declined to a low level in recent years.

BUILDING SOLUTIONS

Turnover in the Building Solutions segment fell by 9.7% to € 672.5 million. The organic decline in turnover was 2.9%. Acquisitions made in 2019 boosted growth by 3.9%, while divestments led to a 10.4% decline in turnover. Currency exchange rates had a negative impact of 0.3% on turnover. On balance, raw materials prices had no impact on turnover.

EBITA before one-off expenses rose 2.4% to € 77.3 million. The ROS improved to 11.5% in 2020 from 10.1% in 2019.

MACHINE VISION – In the first half of 2020, a strong organic growth was realized, despite the restrictions from lockdowns. In particular, the demand for our 3D vision technology for new applications in the consumer electronics industry made a significant contribution to the growth recorded, largely realized in the first half of the year. This growth levelled off in the second half of the year. The cost savings made through the integration of 2D vision activities contributed to higher EBITA and ROS.

KEY FIGURES TELECOM SOLUTIONS

in mln. € (unless otherwise stated)	2020	2019	change
Turnover	183.1	200.5	-8.6%
EBITA	23.1	30.8	-25.0%
ROS	12.6%	15.4%	



KEY FIGURES BUILDING SOLUTIONS

in mln. € (unless otherwise stated)	2020	2019	change
Turnover	672.5	745.0	-9.7%
EBITA before one-off expenses ¹	77.3	75.5	+2.4%
ROS	11.5%	10.1%	

¹ The one-off expenses pertain to costs of € 8.6 million for reorganizations and integrations (2019: € 17.2 million).

INFRASTRUCTURE – Turnover remained stable on balance due to the increased need to invest in energy networks by network companies. This had a positive impact on the demand for energy cable systems, despite the restrictions technicians faced in the execution of their work. TKH has decided to expand production capacity for energy cable systems and expects to take this additional capacity into operation from the third quarter of 2021. The Airfield Ground Lighting (CEDD/AGL) activities were visibly impacted by the COVID-19 outbreak, as a result of investment limitations at airports due to a sharp decline in demand. Despite this, turnover did increase in the fourth quarter, partly due to a major contract for Istanbul Sabiha Gökçen Airport. The turnover in traffic monitoring systems declined due to the postponement of projects.

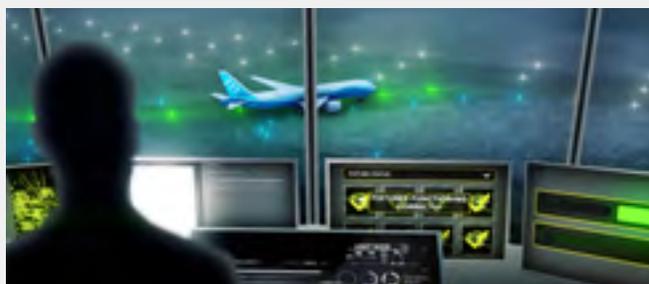
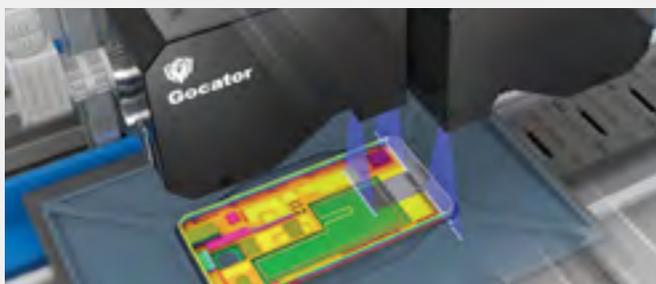
MARINE & OFFSHORE – The turnover from subsea connectivity systems was much higher than in 2019. In 2020, TKH acquired new contracts for Offshore Windfarm Kaskasi and Hollandse Kust Zuid, the largest part of which will be taken into production in 2021. Underutilization and

start-up costs due to new cable types pressured results in this market. The growth in subsea connectivity systems more than compensated for the decline on the back of stagnation in the cruise ship building sector.

PARKING – Turnover declined sharply compared with 2019, as projects at and tenders for airports and shopping malls ground to a halt due to the impact of COVID-19. This impact was particularly marked in North America, which is an important market for TKH. TKH anticipated lower investment levels at its customers by sharply reducing its operating costs. In addition to this, TKH initiated the further integration of its parking and security organization in the third quarter, with the aim of optimizing its synergy benefits.

CARE – Despite the increased demand for our communication technology for care alarm systems and elderly care, turnover fell due to the fact that installation opportunities for care institutions were limited by the COVID-19 pandemic.

OTHER MARKETS – The building & construction market was faced with restriction on the execution of projects and the COVID-19-related restrictions had a negative impact on production levels.



INDUSTRIAL SOLUTIONS

Turnover in the Industrial Solutions segment fell by 20.3% to € 433.7 million. The drop in turnover was largely the result of postponements of the completion of projects at customers due to lockdown situations. Currency exchange rates had a marginal impact of 0.1% on turnover. The organic decline in turnover was 20.2%.

EBITA fell by 41.8%, due to the sharp decline in turnover and the resultant lower coverage and a limited costs decrease. The ROS fell to 10.9% in line with this decline in turnover (2019: 15.0%).

TIRE BUILDING – Turnover declined as a result of the postponement in the completion of various projects due to lockdown situations at customers. The drop in demand at tire manufacturers led to the postponement of investments, which in turn resulted in lower order intake, mainly in the second and third quarter of 2020. We noted a recovery in order intake in the fourth quarter, with a relatively high proportion of the orders from China. The share of the

top-five tire manufacturers in this order intake was still limited. The development of the UNIXX (a new tire-building platform) is progressing well, but the completion is being delayed as a result of access restrictions at the location of the launching customer due to COVID-19.

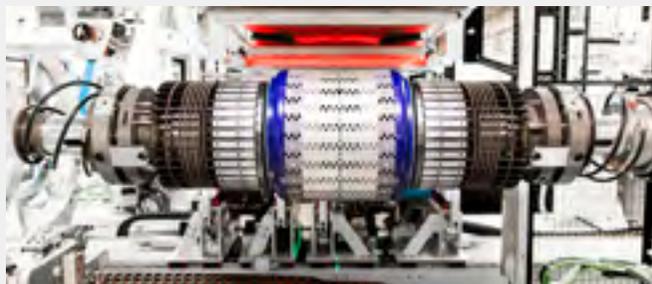
CARE – Following the successful delivery of the Indivion, the high-grade medicine dosing and distribution system, in late 2019, TKH made a breakthrough with the Indivion technology in North America in 2020. TKH was recording turnover growth in the second half of the year.

OTHER MARKETS – Turnover in the industrial sector came under pressure as a result of a lack of willingness to invest, especially among machine builders and in the robotics industry. This had a negative impact on TKH's industrial connectivity activities, primarily due to the reduction of inventories.

KEY FIGURES INDUSTRIAL SOLUTIONS

in mln. € (unless otherwise stated)	2020	2019	change
Turnover	433.7	544.2	-20.3%
EBITA before one-off income and expenses ¹	47.3	81.4	-41.8%
ROS	10.9%	15.0%	

¹ One-off income and expenses due to a book profit of € 2.0 million on the sale of business premises and reorganization costs of € 0.3 million (2019: expense of € 1.1 million).



TURNOVER VERTICAL GROWTH MARKETS 2020 in million €

FIBRE OPTIC NETWORKS

TURNOVER	122
BANDWIDTH GROWTH SCENARIOS	175-200

MACHINE VISION

TURNOVER	173
BANDWIDTH GROWTH SCENARIOS	250-300

INFRASTRUCTURE

TURNOVER	131
BANDWIDTH GROWTH SCENARIOS	150-200

MARINE & OFFSHORE

TURNOVER	55
BANDWIDTH GROWTH SCENARIOS	150-200

PARKING

TURNOVER	37
BANDWIDTH GROWTH SCENARIOS	150-200

CARE

TURNOVER	52
BANDWIDTH GROWTH SCENARIOS	70-100

TIRE BUILDING INDUSTRY

TURNOVER	242
BANDWIDTH GROWTH SCENARIOS	450-550

OTHER VERTICAL MARKETS

TURNOVER	477
BANDWIDTH GROWTH SCENARIOS	450-500

ACQUISITIONS, DIVESTMENTS AND INVESTMENTS

Acquiring companies is anchored in TKH's strategy and contributes to the intended value creation by strengthening TKH's proposition both technologically or geographically. In the case of acquisitions, we focus on structurally healthy companies that align with our core technologies and the associated vertical growth markets, or that strengthen our geographic footprint. The strategy transformation program 'Simplify & Accelerate', introduced in 2019, includes a divestment program with the aim of divesting € 300 to € 350 million in activities, focused at activities with a lower profit potential.

ACQUISITIONS

No material acquisitions took place in 2020.

DIVESTMENTS

In November 2019, TKH announced that it had reached an agreement with Shanghai Electric Group Company Ltd. in Shanghai (China) on the sale of TKH subsidiary Zhangjiagang Twentsche Cable Co. Ltd. ("ZTC") in Zhangjiagang, China. ZTC specializes in the production of copper data communication cables and achieved in 2019 a turnover of € 69.6 million an EBITA of € 5.0 million with 198 FTE. This divestment was completed in January 2020.

In April 2020, TKH completed the sale of Cruxin B.V. in Capelle a/d IJssel (Netherlands) to Croonwolter&dros (Netherlands). As a system integrator, Cruxin specializes in the design and engineering of integrated technical solutions, where security and safety systems and process-critical communication systems are combined into integrated solutions. Cruxin achieved in 2019 a turnover of € 10 million and an EBITA of € -0.8 million with 49 FTE.

INVESTMENTS IN TANGIBLE NON-CURRENT ASSETS

In 2020, the net investment in tangible non-current assets, excluding right-of-use assets, totalled € 28.0 million (2019: € 31.8 million). In addition, a property held for sale was sold for € 3.9 million. Part of the investments concerned replacement investments. An important part of the investments related to the expansion of building and production capacity, including:

- Upgrading of production capacity for subsea cable systems.
- Expansion of production capacity for energy cable systems for energy networks.
- Integration of cable production capacity of Ittervoort in Haaksbergen.
- Expansion of the production capacity for 2D and 3D smart sensor technology.
- Expansion of building capacity for smart manufacturing (Industrial Care and Tire Building Industry).

Depreciation on tangible non-current assets totalled € 29.8 million in 2020 (2019: € 29.5 million).



INVESTMENTS IN INTANGIBLE NON-CURRENT ASSETS

In 2020 € 39.6 million was invested in intangible non-current assets (2019: € 40.5 million). The most important investments involved the (ongoing) development of our technologies for solutions for our vertical growth markets, as well as related patent fees. These include new generations of tire building systems, subsea portfolio and production technology, contactless energy and data distribution (CEDD), communication systems, an integrated security platform, parking management and guidance technology and 2D and 3D vision portfolio.

Expenditure on our acquisitions amounted to € 0.5 million (2019: € 65.5 million). As a result, intangible non-current assets increased by € 0.6 million because of purchase price allocations for the acquired brand names, customer databases, intellectual property and goodwill paid (2019: € 80.5 million).

TALENT EMPOWERMENT

The quality of both the organization and its employees is a decisive factor in the success of the TKH Group. We demand much from our employees, who have a clear idea about that which is expected of them and how they can make an active contribution. It is our duty to be a good employer and to motivate and help our employees as best possible so that they can carry out their work with enthusiasm. We provide our employees with a healthy working environment where safety comes first, and we give them opportunities to develop.

ORGANIZATIONAL STRUCTURE

TKH has a devolved organizational structure, assigning responsibilities as far down the organization as possible. An Executive Board, the body bearing ultimate responsibility, is supported by the Management Board in the operational implementation of the strategy. In addition to the three members of the Executive Board, the Management Board consists of the Director Finance & Control, Director Corporate Development and the Company Secretary. The Executive Board is responsible for the decisions taken by the Management Board and bears ultimate responsibility as provided for in the company's articles of association. In addition, TKH has a Strategic Sounding Board, consisting of the managing directors of several operating companies. This board assesses TKH's strategy and discusses its implementation. The members of the Strategic Sounding Board work together to discuss technological, portfolio and business developments within the TKH Group with the Management Board. This platform also provides an opportunity to involve young talent in the development and execution of strategy at an early stage, thus promoting management development.

During the year under review, further steps were made towards simplification of the organizational structure, allowing concentration on activities with a greater value-creation potential. Integration of operating companies, with the focus on the benefits of economies of scale, makes it possible to capitalize on operational synergies and better deploy the available expertise. As a result, it is possible to clearly address activities such as product development, procurement, marketing, communications and sales; an approach that leads to consistency in both branding and customer service. The number of operating companies has been further reduced due to divestment of activities which, in view of their nature, have narrow profit margins or limited autonomous growth potential.

CULTURE AND RISK MANAGEMENT

TKH has a culture in which entrepreneurship is encouraged. Organizational risks associated with entrepreneurship are easily identifiable through a clear framework of responsibilities and authorizations. An open and transparent culture in the organization, coupled with the capacity to be selfcritical,

MANAGEMENT BOARD



MANAGEMENT BOARD TKH GROUP

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



enables it to deal with responsibilities and authorizations correctly, and identify risks in good time. Risk management is firmly embedded in our management model. This is characterized by short lines of communication with the Executive Board and it is backed up by close monitoring of agreed objectives using a comprehensive KPI dashboard that is divided into weekly, monthly and quarterly information. It also provides a clear overview of developments over a longer time-frame. A sound reference framework, such as budgetary and historical information, helps us to quickly and effectively detect deviations from the agreements and, where necessary, to adjust operations. This method is encouraged from the top down to ensure that it permeates all levels of the company. Every quarter, or on a monthly or weekly basis if required, the management teams of the operating companies discuss a strategic scorecard based on 'highlights' and 'lowlights' for each business segment, as well as any related short- and medium-term action points. In this way, it is possible to get an insight into market, financial, commercial and sustainability developments. The reports give both quantitative and qualitative information, and are structured along the lines determined by TKH. This encourages transparent reporting on both positive and negative issues.

TKH aims to have an open business culture in which employees are acknowledged and heard and, in that respect, highly values the integrity of its employees' conduct. We encourage an open, transparent professional attitude, in which our managers lead by example. The Executive Board and the management of the operating companies lead by example and set the right values and standards in the organization. An important principle is achieving a balanced relationship in the company's senior ranks and ensuring that there is harmony in terms of personalities, expertise and skills. Mutual respect is the basis for making properly considered decisions. A clear-cut

code of conduct, operational control and a zero-tolerance policy in relation to matters of principle such as fraud, bribery and corruption are also important means of ensuring that work is carried out in accordance with the right principles and agreements. Because of our open corporate culture, our people feel involved in the company and call each other to account for any undesirable or unacceptable behavior in accordance with the standards and values that we aspire to. Cultural aspects are assessed by means of an employee satisfaction survey, which makes the points on which there is room for improvement clear. The Executive Board maintains direct contact with employees within all parts of the organization by, for instance, attending presentations given by employees, participating in project meetings or by taking part in informal gatherings.

EMPLOYEE REPRESENTATION

The interests of the employees are promoted at operating company level by the local Works Councils, and at the TKH group level by the Central Works Council. These councils ensure on-going employee representation 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 frequent, close consultations with each other. The topics discussed were the results and organizational developments, progress in the strategic transformation process, the budget, investments and the TKH annual report. Special topics dealt with during the year under review were the appointments/re-appointments to the Supervisory Board and the divestments. Due to the COVID-19 measures, which included restrictions on gatherings, it was not possible to hold the annual Works Council Day. This was to be a Works Council Day that would strengthen the bond between the various Works Councils of the Dutch operating companies, and to share knowledge and experiences. TKH believes that consultations with the Central Works Council and other Works Councils are

CENTRAL WORKS COUNCIL

The members of the Central Works Council are:

Olaf Karsten (VMI), *chairman*

Gerard Roolvink (TKF), *secretary*

Ad Boerma (EKB)

Jan Jaap Derksen (VMI)

Maurice Fliescher (Intronics)

Michel van Scherpenzeel (TKH Security)

Louis Scholten (TKF)



important and attaches great value to an open dialog. We believe that adopting an active approach to employee representation helps us stay alert.

GOOD & RESPONSIBLE EMPLOYMENT PRACTICES

The importance of good employment practices, in which responsibility is taken to provide a healthy and safe working environment for all employees, was reinforced in the year under review because of the COVID-19 situation. The measures enforced so that we could continue to guarantee the health and safety of our employees have repeatedly had high priority, as has business continuity. The mandatory measures, such as the requirement to work from home, demanded a lot of flexibility and adaptability from our employees. This situation calls for a different skill set in terms of communication and partnership.

The COVID-19 situation prompted a different style of leadership from senior management in relation to communication and administration of work, which was increasingly being arranged virtually. In the context of continuing involvement and motivation, it was clearly important to draft clearly-worded guidelines on how to remain healthy and continue to work safely (from home or otherwise) and frequently update our employees on our approach and overall view of the altered situation. We frequently published employee announcements and video messages from the management of the operating companies and the Executive Board. Each operating company and the parent organization TKH, has also opened a hotline through which our employees can ask questions about COVID-19 and all measures associated with the pandemic, and also express any health-related concerns.

The COVID-19 situation has led to a wide range of adjustments in the working environment, ranging from reconfiguring work stations to accommodate enforcement

of the 1.5 meter social-distancing requirement and creating one-way flow routes, to closing canteens and other public spaces. Making it possible to work from home in a way that is both healthy and safe was also an important issue in the year under review. This included providing ergonomic advice on home workstations, while resources such as adequate office chairs and IT equipment were made available. IT security was also once more under scrutiny due to the steep increase in work from home, as was adherence to the applicable IT guidelines, not least because of potential cybersecurity risks. Some of the measures that we have had to implement, such as working from home, will continue even once the coronavirus crisis is behind us. This means that we, the employer, must design an unambiguous policy to accommodate this measure.

EMPLOYEE SATISFACTION

In times of uncertainty, it is all the more important to be able to measure good employment practices. We have been carrying out employee satisfaction surveys (ESS) for a long time, in a cycle of around three years. The surveys provide important information regarding the motivation, satisfaction and expectations of our employees. Follow-up surveys also measure the effects of improvements made in response to the findings. We carry out these surveys in collaboration with a specialized third-party research agency. In order to get an insight into the impact of the COVID-19 restrictions and measures on our employees, certain operating companies have carried out a satisfaction survey that had a special focus on the impact of COVID-19 on employees, such as the requirement to work from home, working together 'virtually', the balance between work and private life, and internal communication. Open questions were among the tools used in the survey to give employees the opportunity of making their experiences during the COVID-19 pandemic and needs for the future known. We will amend our HR policy on the basis of the results of the study and a robust plan of action.

EMPLOYEE SATISFACTION

On a scale from 0 to 10



7.4

2019:
7.3

LTIF (LOST TIME INJURY FREQUENCY)

Number of accidents with absenteeism per 1 million hours worked



0.8

2019:
0.7

NET PROMOTER SCORE

On a scale of -100 to 100



+12.0

2019:
+7.0

EMPLOYEES WITH A DISADVANTAGE ON THE LABOR MARKET

Number as of December 31



100

2019:
120

A SAFE AND HEALTHY WORKING ENVIRONMENT

Safety awareness and safety performance are important focus areas within the TKH group. Preventing industrial accidents and encouraging a professional safety culture form an important basis in that respect. We achieve this by being transparent about accidents and near-misses so that employees are more alert to risky situations and can react more rapidly. The manufacturing companies provide information on safety within the organization and clear work instructions regarding machinery safety are available. Strict measures are taken to ensure that requirements such as the mandatory wearing of safety shoes and protective clothing are complied with. We also encourage employees to draw each other's attention to situations that could lead to dangerous incidents.

In the year under review, the aim for operating companies for which safety is an important factor due to the nature of the work they do, was to obtain ISO 45001 certification. This ISO standard covers requirements for a management system relating to occupational health and safety (OH&S) which means that OH&S risks can be managed, and performance improves. 75% of TKH operating companies 'in scope' are certified under the ISO 45001 standard.

In order to make safety demonstrable, emphasis is being placed on specific, measurable performance targets for safety measures, including LTIF (Lost Time Injury Frequency) and illness rate. The LTIF figure for 2020 has risen slightly in relation to last year, although the number of accidents fell by over 30%. The cause of the slight rise in the LTIF figure is related to a decline in productive hours due to factors including the mandatory lockdowns as a result of COVID-19.

The illness rate was 3.51%, which is above last year's level (2019: 3.26%) but below the target of a maximum of 4.0%.

COVID-19 has had the greatest impact on the rise in illness rate amongst other things due to lockdowns. By acting quickly and responding with appropriate measures to address the COVID-19 situation, in order to guarantee the health of our employees, we were able to keep absence to an acceptable level. In addition to the physical condition of our employees, extra attention was paid to the potential psychological impact of COVID-19 on their private life/work situation, and to how people can remain energetic and healthy.

DIVERSITY & INCLUSIVITY

TKH is an international group of companies with a workforce that consists of many nationalities. In such an international environment, we take a broad view of diversity. The diversity policy at TKH focuses on a variety of abilities, skills and nationalities, including a mix of men and women as well as a balanced distribution of ages. There is good job occupancy at junior, mid and senior levels. The current age structure also leads to manageable staff turnover due to retirement.

Because the workforce is representative of the various aspects of diversity a wide range of skills can be utilized, which leads to greater objectivity and dynamism. We continue to believe that skills and experience are the main criteria for selecting the right candidate.

In order to bring diversity to people's attention in the organization, specific programs have been set up with different approaches to better embed this in the organization. There are programs for middle and senior management to bring gender diversity more into balance in terms of jobs and consultation structures. This group plays a key role in the strategic development of the TKH Group and acts as a sounding board for top management at the operating companies and the Executive Board. Moreover, this group



is relevant in the context of succession planning. Operating companies are themselves responsible for improving the gender mix within their organizations; progress in this respect is closely monitored by the Executive Board.

Likewise, inclusivity is part of the diversity policy. In our appointments policy, we are committed to providing a suitable working environment for people with a disadvantage on the labor market. We create work experience opportunities for the long-term unemployed or people returning to the labor market. Workers from sheltered employment are deployed to perform repetitive work. In the year under review, the number of employees with a disadvantage on the labor market fell, particularly because of a drop in the level of activity in segments in which these employees are largely active.

TKH pursues a strict policy of equal treatment for all employees regardless of race, nationality, ethnic background, age, religion, gender, sexual orientation or handicap.

NUMBER OF FTEs

Workforce as of December 31



5,583

2019:
5,980

RATIO MEN/WOMEN

Workforce as of December 31



77%



23%

EDUCATION HOURS/FTE

Average hours



18 hours

2019:
24 hours

We do not differentiate between men’s and women’s basic salaries and apply market-based remuneration. In addition to a fixed basic salary, the remuneration structure may include incentives such as a profit-sharing scheme, performance-related bonuses, a share option scheme, or share-based remuneration for senior management. There may be differences between countries depending on local market practice and the tax and social security structure. We have a remuneration policy based on the requirements of the job, and the experience and skills of the individual.

For the majority of Dutch employees, we adhere to the social conditions of employment as stated in a collective labor agreement applicable to the sector (CAO). Agreement-related rules are observed in those operating companies where there is no collective labor agreement. We apply a similar policy for foreign operating companies, in line with local laws and regulations. TKH ensures that such schemes are correctly drafted and observed, particularly as regards periods of notice, restraint-of-trade clauses and profit-sharing arrangements, and that the statutory notice periods and other provisions are complied with. In the case of acquisition opportunities, the salary structure of the company to be acquired is one of the subjects examined during the due diligence process.

At year-end 2020, the number of employees (in FTEs) was 5,583 (2019: 5,980 FTEs). As a result of divestments, the number of employees fell by 248 FTEs. At year-end 2020, there were 121 (FTE) temporary employees employed (2019: 310 FTEs). The decline in temporary labor occurred mainly within manufacturing systems.

At the end of 2020, 23% of the workforce consisted of women, which is round about the same level as last year. The nature of our work is largely technical. Together with the supply on the labor market, this is the main reason for

the present distribution of male and female employees. However, we do see women increasingly choosing technical professions so that we can more specifically select and recruit women for technical positions within our organization.

DEVELOPMENT OPPORTUNITIES

Talent and management development are of great strategic value. Employee skills and backgrounds are matched as closely as possible to the strategic developments at TKH and where necessary we provide education and training to help employees grow in their jobs or guide them to the next career step. At the same time, we are alert to the need to retain critical skills in order to secure our strategic agenda in relation to technological developments and innovations.

Our employees are encouraged to develop in the direction they aspire to. Education and training are an indispensable part of maintaining our knowledge level. We make training budgets available to further develop our employees’ skills and to broaden their employability.

We organize in-company training, with the help of external professionals, so that this matches normal practice at TKH as closely as possible. New employees follow introduction programs including product training.

In collaboration with Nyenrode Business University in Breukelen (the Netherlands), a Management Development (MD) program has been developed for those identified as having a high potential for accelerated career advancement. Candidates are put forward by the management teams of the operating companies on the basis of predetermined selection criteria. The Executive Board has a pro-active role in the MD program, making contributions such as guest lectures.

In the year under review, fewer hours were spent on training and other courses. The COVID-19 restrictions meant that most training courses could not go ahead as planned. There were a few cases in which the courses could be transferred to the virtual environment. In-company training courses were also suspended, as a key aspect of the success of such opportunities is group dynamics and providing an insight into day-to-day practice by means of a company visit. In place of this webinars were organized, but this failed to compensate for the number of training hours lost. With 18 hours per FTE in training hours, the target of 16 hours per FTE was reached in the year under review.

To recruit new talent, TKH maintains close contact with business schools and universities. We are in contact with educational institutes that provide job-specific or management training courses. We offer work placements, graduation projects and minors in order to attract potential talent at an early stage. In addition, we use targeted programs to attract more students with limited or lower educational attainment - such as those on vocational training - in order to give them an opportunity to improve their skills and qualities in practice and interest them in a possible job in our organization.

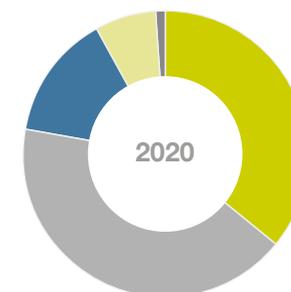
Recruitment of this kind is a high-priority area. We are seeing an increasing scarcity of qualified personnel, especially in the technical positions. It will become more challenging to fill such positions in the coming years. We have seen that positioning our operating companies under the TKH brand has had a positive effect in attracting new employees. Employer branding is increasingly being used to reach future talents and arouse their interest. When recruiting external candidates, we increasingly use referral recruitment, in which we ask employees to propose new colleagues. In this type of recruitment, the chance of a match is high because our employees can make a good

assessment of whether a potential candidate is suitable for the position and fits the organization. The COVID-19 situation has led to talented workers who may previously have been difficult to attract being more readily available on the labor market. This meant that critical positions could be filled rapidly. Where capacity became available due to reduction in demand or other restrictions, employees were (in some cases temporarily) deployed to fill other positions where possible.



GEOGRAPHICAL SPREAD OF WORKFORCE

in %



	male	female	total
Netherlands	31	5	36
Europe (other)	29	13	42
Asia	11	3	14
North America	5	2	7
Other	1	0	1

BEING RESPONSIBLE

As a matter of strategic priority, sustainability is firmly embedded in our day-to-day operations, and sustainability initiatives being integrated into our organization. Our policy for corporate social responsibility provides a framework for both our short- and medium-term plans without losing sight of company interests. This means that every business decision is made not only in the light of its effect on profitability but also its possible consequences for the people involved in and around our organization, and its impact on the environment and our reputation. In achieving our financial and non-financial targets we take into account our social responsibilities in relation to all relevant stakeholders.

TKH conducts its activities in accordance with principles of honesty, integrity and transparency. We notify our stakeholders of our operations and developments in the company. We underpin our sustainability policy on the basis of internationally recognized (quality) standards, certification programs and accreditation marks. Within our operating companies the ISO standards that share common ground with sustainability goals have been implemented, including the environmental management system, ISO 14001, the OH&S system ISO 45001 (occupational health and safety) and the EN-16247 energy audit system, which is related to the European Energy Efficiency Directive.

SUSTAINABLE PRODUCTION & MATERIAL EFFICIENCY

Sustainable business practice also includes sustainable management of resources. We focus on production efficiency with the 'operational excellence' program, so we never lose sight of issues such as reduction of energy consumption and use of raw materials. At all our production companies, from the design stage, we choose raw materials and other

materials that have little or no harmful impact on the environment. Efficient management of materials and raw materials is relevant because of the consumption of valuable metals such as copper and aluminum, which form an essential part of the cable production process, and because of the waste that is inevitably generated. The main raw materials used by TKH are copper, plastics and aluminum. All waste produced is in the non-hazardous waste category.

Our policy is aimed at eliminating waste to such an extent that it has as little impact on the environment as possible. This also helps us avoid unnecessary costs. We have adopted two approaches to this:

- Quantitative: we aim to reduce the quantity of waste at source structurally by increasing material productivity. We reduce waste by improving processes and making innovations.
- Qualitative: We minimize the damaging effect of the waste. This means making as much use of recycled materials (recyclate) as possible and optimizing waste treatment by greater cooperation throughout the value chain.

Total waste from the most relevant raw materials, compared to total material consumption, was 6.6% in the year under review, compared with 7.2% in the previous year. Due to the measures required in response to COVID-19, productivity and coverage in the production companies fell, which also had an impact on the optimization of the production process and alignment of the production system to the products to be produced. This meant that the target set for a maximum of 5% waste compared with total consumption of materials could not be hit. Nonetheless, the growth in reduction of waste expressed as a percentage (8.5%) shows that measures to reduce waste have been implemented effectively, and that we are well on the way to further reducing our waste flows.

Of the total waste from the most relevant raw materials, 84.3% was recycled (2019: 85.5%), while our target is at least 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. The improvement in recycled waste is also due to investments in production equipment for the in-house recycling of cable waste.

In selecting raw materials and other materials, we take sustainability criteria into account, alongside price and quality, of course. Partnership in the value chain also plays a part in successfully introducing sustainable product innovations. We will achieve the innovations that are needed to fulfill this ambition by working closely with partners in the

chain. Sustainable cable composition is given high priority in the cable manufacturing companies, and we continue to look for innovative manufacturing techniques and possibilities to improve efficiency in the value chain. We conduct discussions in the value chain on how processes and products can be made more sustainable, so that we can make more effective use of resources.

We are trying to reduce the impact our activities have on the environment as much as possible by continuously measuring and improving our environmental performance. Our activities may cause nuisance in the surrounding area. We make every effort to prevent this or to reduce it to a minimum. To this end, we have drawn up several internal guidelines and implemented noise-reduction and odor-reduction measures. We register and manage environmental complaints and inform those involved in good time about the corrective or preventive measures.

CLIMATE CHANGE

The potential impact of climate change on our strategy and our business model has received plenty attention in the year under review. Based on recommendations from the Task Force on Climate-related Financial Disclosures (TCFD), in the year under review we extensively analyzed potential risks to our operations posed by climate change, and how any such climate-related risks could be converted into opportunities by means including our innovations that make a contribution to climate-change adaptation or climate-change mitigation.

The analysis carried out identified four possible risk areas that could have an impact on TKH's strategy and operations.

RISK AREAS

Risk area	Risks
Laws and regulations	<ul style="list-style-type: none"> Future implementation of CO₂ taxation/pricing will mean a rise in operational and compliance costs.
Technology	<ul style="list-style-type: none"> High investment costs involved in bringing technology up to the standard at which it can meet the demand for products and services that can offer reduced emissions.
Market demand and market change	<ul style="list-style-type: none"> Failure to match up to the expectations of key stakeholders including customers and investors in relation to information on how we are meeting the challenges of climate change.
Scarcity of resources	<ul style="list-style-type: none"> Increasing volatility in prices of raw materials/resources and materials.

The analysis also highlighted seven possible opportunity categories that we could possibly use to increase our positive contribution in relation to climate change and climate-change mitigation.

OPPORTUNITY CATEGORIES

Opportunity category	Opportunities
Efficient use of production processes	<ul style="list-style-type: none"> Further implementation of more effective production processes via our 'operational excellence' program.
Use of energy sources with lower emissions	<ul style="list-style-type: none"> Further implementation of CO₂-neutral operations.
Development of new products and services by means of R&D and innovation	<ul style="list-style-type: none"> Access to a markets with our innovations.
Focus on zero-emissions products and services	<ul style="list-style-type: none"> Rise in turnover due to demand for those of our innovations that result in lower emissions. Distinctiveness compared with the competition.
Participation in value chain (and other) programs for generation of sustainable energy	<ul style="list-style-type: none"> Contribution to hitting internationally-agreed targets in relation to climate mitigation.
Circular economy	<ul style="list-style-type: none"> Continuation of waste-reduction targets and recycling ambitions, so that we can make a sustainable and demonstrable contribution to the circular economy.
Participation in initiatives for renewable energy	<ul style="list-style-type: none"> Deployment of our knowledge.

Follow-up action includes discussing the results of the analysis with our strategic stakeholders in order to obtain a validated overview of the most significant threats and opportunities. In that way we can gain insight into acceptance and mitigation of threats, and we can take further steps to bring opportunities to fruition. This will ultimately result in a climate threat profile: a blueprint of how we aim to face up to climate change. The climate threats we have identified will also be embedded in the risk-management system, so that such topics are safeguarded at organizational level.

CO₂-REDUCTION

Efficient energy consumption and reduction of CO₂ emissions are important performance indicators for all our locations.

For many years we have been pursuing targeted energy reduction and, where possible, encouraging the use of sustainable sources of energy. By constantly improving our production and procedures and continuing to investigate new, energy-efficient solutions, we are endeavoring to take the energy factor into consideration wherever possible. By doing so we are attempting to keep both CO₂ emissions and energy costs to a minimum.

Energy consumption primarily focuses on electricity (kWh) and natural gas (m³). At 74% of the total kWh consumed, electricity consumption is the largest in terms of absolute volume, owing to its use in the production process, lighting, ventilation, air-conditioning and extraction systems. Gas represents 26% of the total kWh consumption and is used for heating buildings and, to a smaller extent, for process heating. The consumption of diesel and fuel oil has declined in recent years, and is now just 0.3% of total consumption.

Energy consumption (in kWh), at 15.5%, was considerably lower compared with 2019. The COVID-19 situation had a great impact on this with closure (in whole or in part) of

locations, and lower productivity at the production plants. The divestments also had an effect compared with the basis for comparison with last year.

The reduction target for CO₂ emissions and the reduction measures tied to that focused on reducing our electricity consumption (scope 2), and the reduction in consumption of fossil fuels (scope 1), such as natural gas. For the year under review we have set ourselves the target of 2.5% reduction in CO₂ emissions compared with the reference year, 2015. The ultimate reduction came out at 5.8%; in other words we surpassed our target by quite a margin, despite investments in production facilities in the past few years that have had a rising effect on energy consumption and, as a result, CO₂ emissions.

To a limited extent, TKH uses green certificates in order to make an accelerated contribution to the reduction of CO₂ emissions. The extent of this remained unchanged in the year under review compared with last year, so it can be said that the energy reduction achieved is directly related to efficiency effects in operations.

Under the terms of the EU Energy Efficiency Directive (2012/27/EU), member states must ensure that large-scale organizations undergo an energy audit, with the aim of gathering information on real-time energy consumption and gaining an insight into the potential for energy savings. At country level, where applicable, TKH has drawn up an integrated plan for energy efficiency to comply with the terms of this Directive. We use the subject matter of these plans for our reports on energy reduction. The identified potential for making savings is monitored frequently in order to be able to safeguard adherence to actions for improvement. Energy-saving measures that have already been implemented relate to the replacement of conventional lighting with LED lighting, replacement of central-heating

boilers with energy-efficient models, replacement of LPG lift trucks with electric lift trucks, monitoring and reducing energy peaks and investing in energy from sustainable sources, such as solar panels.

TECHNOLOGICAL INNOVATIONS WITH AN IMPACT ON SUSTAINABILITY (SDGs)

TKH plays a role 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 sustainability principles. Satisfying sustainability criteria plays an increasingly decisive role in our customers awarding contracts. We are making a significant contribution to the SDGs by means of our innovative product portfolio. Approximately 70% of our total turnover is now linked to one of the SDGs that we have defined as relevant.

In this way we support our customers in achieving their sustainability criteria and simultaneously provide clear direction on how forward-looking our company is in terms of sustainable development.

TKH strives for a balanced product portfolio with innovative solutions tailored to the customer's wishes. In this respect, sustainability criteria are becoming increasingly relevant. We are also devoting attention to sustainable innovation based on our innovation objective. We have set ourselves the target that at least 15% of our turnover should derive from innovations introduced in the two preceding years. In the year under review the proportion of innovations in turnover figures was 21.1% (2019: 20.5%).

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 for a continuous improvement process based on the specifications.

REDUCTION IN ENERGY CONSUMPTION

in kWh

**15.5%**compared with
2019**REDUCTION OF CO₂ EMISSIONS****5.8%**compared with
reference year 2015

The potential impact on health and safety is also taken into account. All cables for fixed installations in construction works - both for structures and civil engineering - for the European market are certified in line with the Construction Products Regulation (CPR) in accordance with the NEN 8012 standard. NEN 8012 is used to determine the fire class and is an indication of the behavior of cables in the event of fire, with the aim of limiting the development of fire and smoke.

TKH's technologies and solutions support the sustainability ambitions of customers. Our subsea-cable systems contribute to a sustainable energy supply for the future. The TKH tire building systems increase the efficiency of the production process, which - in addition to high-quality tires - results in energy and waste reduction at the customer's site. The CEDD/AGL solution for airports/airfields provides energy savings due to the use of sustainable LED lighting as well as the use of low voltage with induction. The parking guidance systems ensure efficient traffic flow in car parks, leading to a significant reduction in CO₂ emissions. TKH vision technology has become an indispensable application that optimizes manufacturing processes, and automates and perfects quality control as well as inspections in production processes. This leads to significant efficiency improvements in the industry with positive results regarding sustainability criteria. We are continuing to tailor our portfolio to our customers' wishes with regard to efficiency and sustainability requirements, taking 'customer intimacy' as our starting point. This annual report uses a number of business cases to further substantiate our sustainable, innovative portfolio, linked to the SDGs.

CUSTOMER SATISFACTION

High-quality technologies, solutions and corresponding services are essential to our commercial clout. Customer interests play a central role when we undertake and

implement operational activities and developments. We measure, monitor and evaluate customer loyalty and appreciation via customer satisfaction surveys, in a three-year cycle. Based on the outcomes we can take specific action to serve our customers even better. The average score of the customer satisfaction surveys is 8.1, which is above the benchmark score of 7.8. With training and skills management, standardization of processes and further improvement of our availability, information systems and 24-hour service, we aim to provide an even better customer experience.

INTEGRITY & COMPLIANCE

TKH highly values the integrity of its employees' conduct. Clear guidelines, operational control and a zero-tolerance policy in relation to matters of principle, such as fraud, bribery and corruption, ensure that work is carried out in accordance with the appropriate principles and agreements. We have in force a code of conduct to ensure that every employee acts according to TKH's conduct guidelines. The code of conduct uses the OECD guidelines as a reference framework. Each employee confirms in writing that they will act in accordance with the code of conduct. The code of conduct is linked to a sanctions policy in cases of unacceptable behavior. The managers of our operating companies are responsible for implementing the code of conduct within their organizations. The code of conduct has been signed by 93.7% of the total number of employees. The desired 100% has not been achieved due, among other things, to a longer lead time than intended for signing the code in the case of new employees. We are maintaining close contact with the operating companies and establishing clear rules to eliminate such delays as quickly as possible. Internal Audit ensures that the code of conduct is complied with in all parts of our organization. There is close co-operation with TKH's Compliance Officer and Legal Advisor. Among other things, the Internal Control Framework

CUSTOMER SATISFACTION

On a scale from 0 to 10



8.1

2019:
7.9

NET PROMOTER SCORE

On a scale of -100 to 100

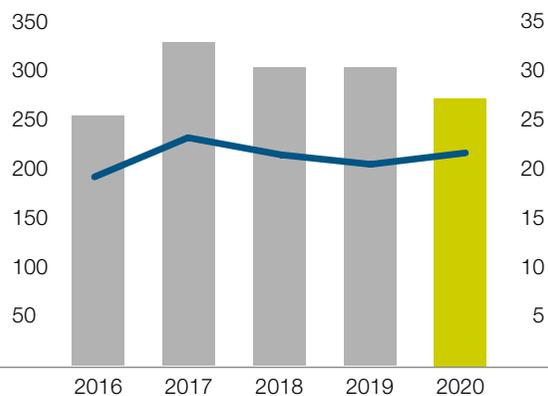


+23

2019:
+16

TURNOVER FROM INNOVATIONS

in million €



■ Turnover from innovations
— Innovations in % of turnover

is used to effectively monitor and assess possible bribery and corruption risks. The code of conduct can be downloaded from the TKH website.

Part of the code of conduct is a whistleblower scheme. All TKH employees may report suspicions of wrongful conduct at TKH. Such a report will not affect the position of the whistleblower if the report is made in accordance with the procedure established for that purpose. In the past year, no reports were received in accordance with the whistleblower scheme. It is difficult to draw clear conclusions about the level of awareness of acting with integrity, and the possibility of reporting abuses. We believe it is important to promote an open and transparent culture and we measure such issues in the employee satisfaction surveys.

With regard to issues that are material to us, we expect a zero-tolerance policy from our suppliers too. Our principles are recorded in a code of supply, which targets such issues as human rights, the environment, occupational health and safety, and ethical behavior. Our requirements are laid down in the code of supply and focus on human rights, the environment, health, safety and ethical conduct. Every supplier with a purchase volume above € 1 million must sign the code of supply. Within a maximum of two years after a code of supply has been signed, there must be an assessment of the supplier in question to review the items stipulated in the code. In the year under review, site visits to suppliers were severely restricted due to COVID-19. However, where possible, aspects from the code of supply and the associated assessment were discussed and/or implemented in virtual sessions. Internal Audit has included auditing the processes to be carried out in relation to the code of supply in its work program.

We have included provisions regarding the respecting and safeguarding of human rights in both our code of conduct

and the code of supply. Our policy is not to tolerate any violation of any human right. We use the OESO guidelines as a reference framework to enable us to quickly identify potential risks. These OESO guidelines refer to the Universal Declaration of Human Rights, which states that all parties in society, including companies, are obliged to respect and safeguard human rights. In the assessment that we carry out with suppliers in the context of our code of supply, we question the supplier on its observance of human rights, and discuss possible areas in which discrimination may be an issue, the right to social security and the risk of child labor in the chain. The assessments carried out with suppliers have revealed no violations of human rights. Privacy is an important principle of human rights. People must be able to live in freedom, without everyone knowing everything about them. The Privacy Act gives people more rights and organizations more obligations to handle personal data carefully. Internal Audit covers this theme of human rights as part of its auditing activities and questions our managers about their observance of human rights and whether there are any potential human rights conflicts that could arise, chiefly in the value chain in which we operate.

ANTI-COMPETITIVE BEHAVIOR AND SANCTIONS

TKH fights anti-competitive behavior 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. In order to safeguard this, internal guidelines drawn up for strategic management within the TKH Group must be followed. The guidelines contain rules relating to decision-making procedures and internal authorizations. The TKH code of conduct also applies in this respect. Naturally, we abide by the applicable competition legislation. Internal Audit has an important auditing function regarding our compliance with laws and regulations. In the event that sanctions are

imposed on our company by authorities, we will explain the cause and the corrective actions that have been taken. In 2020, we did not incur any sanctions.

COMMUNITY INVESTMENTS

TKH sponsors social activities and supports charities. The reason for this is our social engagement, hence we have been supporting social initiatives in health, sport and culture. We regard sponsorship as a means of giving something back to people or organizations that need help. We wish to remain objective in this, which is why we do not support projects of a religious or political nature. We also use sponsorship to enhance our brand recognition and draw attention to our technologies and solutions. There is a distinction between sponsorship at TKH (holding company) level and sponsorship at operating company level, which mostly focuses on specific business activities or takes place locally. Participation by our employees in social, sporting events are supported financially, something which enhances social engagement and commitment with our group. We also support cultural initiatives and local cultural heritage.

PRIVACY & IT SECURITY

Due to increasing alertness to potential cyber risks, IT & Security has been high on the strategic agenda and a clear IT Security policy has been drawn up at TKH. In addition, IT audits have been carried out at operating companies on the basis of which action plans have been drawn up to address vulnerabilities in IT systems. As a result of the IT audits, the issues of cybersecurity and cyber risks have been given high priority within the organization and awareness of potential risks has been raised. Communication on cybersecurity takes place by sending out regular newsletters for example. Penetration tests have also been carried out at some operating companies to determine whether the organization is sufficiently resilient to possible digital attacks. These tests have provided insights into potential vulnerabilities of the

IT infrastructure and their possible consequences. The ultimate goal is to implement safe processes and effective controls, and to create a safe and honest culture. The subject is a recurring item on the agenda in meetings of the Executive Board as well as in Audit Committee meetings. This ensures permanent attention to this topic. IT & Security is part of the immediate focus area of Internal Audit. Further information about IT & Security is included in the Risk Management chapter.

European legislation on the protection of private information, the General Data Protection Regulation (GDPR), lays down strict rules on the use of personal data and the storage of such information. One of the conditions is the establishment of a processing register that shows what personal data is used or stored, where, and for what purposes. The establishment of this register gives insight into and control over data processing in the organization and the related privacy controls. A privacy regulation has also been drawn up and implemented in the organization. Internal Audit, in collaboration with the internal Legal Advisor (who is also the Data Privacy Officer) ensures the proper application of GDPR legislation within the organization.

TAXES

TKH Group's tax department focuses on compliance with applicable tax laws, regulations and ethical standards in the countries in which we operate. The tax department is guided by TKH's core values, does not aim at aggressive tax planning (including so-called tax havens) and strives to limit tax risks. The tax department has a global responsibility for the tax position of TKH group, in particular with regard to income tax and related aspects such as transfer pricing. In carrying out this task, the long-term considerations and interests of TKH's various stakeholders are taken into account.



The tax strategy is aligned with TKH's organizational values and forms an important part of the policy surrounding TKH's corporate social responsibility. The tax strategy is regularly discussed with the Executive Board. Bodies such as the OECD provide guidelines on international tax matters, which are followed by TKH. This is reflected, for example, in TKH's tax position, which shows that tax is paid where economic activity and value creation occur to a significant extent. For TKH, this is one of the elements that are relevant in the context of a fair-share tax contribution.

Tax systems around the world and their application are becoming increasingly complex. In order to keep abreast of these developments and comply with them, permanent education is provided for the tax department and internal training modules are regularly organized for the financial departments of the various TKH operating companies, with attention paid to technical as well as other tax issues, including tax dilemmas.

In our relationship with the tax authorities, we strive to build strong, mutually respectful relationships based on transparency and trust. We therefore believe in an open and constructive dialog both with the Dutch tax authorities and those of other countries. In the Netherlands, this is explicitly laid down in the 'horizontal monitoring' covenant. Consultations with the fiscal authorities are progressing on how this can be taken further once this covenant has been fully developed. In this respect, we actively co-operate with the Dutch Tax and Customs Administration to share the potential tax impact of new initiatives with them and to embed this in a ruling, if necessary. This ensures that the tax classification of new initiatives is in line with TKH's tax policy and also meets the expectations of the Dutch Tax and Customs Administration. In addition, it aims to ensure that activities are only taxed once at a generally accepted tax rate where the business is conducted.

TKH submits an annual Country-by-Country report (CbC) to the Dutch Tax and Customs Administration. This report is made available to the tax authorities of the countries in which TKH operates through the appropriate channels. In the year under review a monitoring and reporting system has been set up in relation to administrative cooperation on cross-border tax arrangements (DAC6).

The following table shows the tax paid in 2020 by region. The tax paid is often different from the calculated tax burden, due to prepayments that differ from the final tax burden. This may be caused by such things as temporary differences, deferred taxation and uncertain tax positions.

CORPORATE INCOME TAX 2020

in thousands of euros	The Netherlands	Europe (other)	Asia	North America	Other countries	Amortization PPA ¹	Total
General information							
Aggregated revenues realized by companies in the country without elimination of intercompany relationships	709,185	585,261	176,695	138,114	16,422	0	1,625,677
Result before tax	24,882	40,703	10,415	9,786	577	-22,948	62,915
Non-current tangible assets	126,730	57,466	30,459	4,834	411	0	219,900
Number of FTEs	1,970	2,285	839	396	93	0	5,583
Tax							
Corporation tax to be paid / claimed at 1 January 2020	-1,552	-9,021	-379	972	-255	0	-10,235
Corporate income tax paid in 2020	-3,767	-11,932	-2,256	-1,803	-146	0	-19,904
Corporate income tax to be paid / claimed at 31 December 2020	-862	-7,828	237	-857	78	0	-9,232

¹ Amortization of intangible assets related to acquisitions.

OUTLOOK

Despite that the macro-economic uncertainties caused by COVID-19 will continue for the foreseeable future, we expect the global economy to gradually improve in 2021. However, we do expect the impact of COVID-19 to be felt in the first half of 2021, as it was in the first half of 2020. Barring any escalation of the afore-mentioned circumstances and any unforeseen circumstances, TKH expects the following developments per business segment in 2021.

TELECOM SOLUTIONS

- In fibre optic networks, the investments in Europe are expected to increase further. Due to COVID-19-related restrictions in the first half of 2021, turnover will not return to pre-COVID levels, but on balance we expect to record higher turnover in 2021.
- The Chinese market is currently dealing with overcapacity, which could lead to pressure on margins. An improved product mix and additional focus on Fibre to the Home (FTTH) projects will absorb a large part of this.
- On balance, we expect to see an increase in both turnover and result in this segment.

BUILDING SOLUTIONS

- In Machine Vision, we also expect to see a continued increase in turnover in 2021. This will be driven by new technologies, such as the Alvium 2D and confocal 3D vision technology.
- In Infrastructure, we expect a further increase in turnover, driven by the increased need to invest in energy networks among network companies. We expect our CEDD/AGL activities to record growth on the basis of the projects we have identified and contracted.

- In Marine & Offshore, we expect to book strong turnover growth in subsea connectivity systems, thanks to solid order intake in 2020. This will easily compensate for the drop in demand for cable systems for cruise ships.
- In Parking, we expect limited recovery in turnover, as the impact of COVID-19 are still noticeable.
- We expect an increase in turnover in Care in 2021, driven by the normalization of COVID-19-related restrictions and due to higher demand for health care-related demotics solutions.
- In the other activities of Building Solutions, we expect to see a partial recovery from the COVID-19-related turnover decline in 2020.
- We also expect the effects of the Simplify & Accelerate program to have a positive impact on the result this year.
- On balance, we expect to record higher turnover and result in this segment in 2021.

INDUSTRIAL SOLUTIONS

- Due to the very low order intake in Tire Building in the second and third quarter of 2020, we expect to see a sharp decline in both turnover and result in this segment in the first half of 2021. The high order intake in the fourth quarter of 2020 and the expected order intake in the first quarter of 2021 offers good prospects of an increase in both turnover and result in the second half of this year.
- In Industrial Care, we expect the international roll-out of Indivion to increase turnover this year.
- We expect our other activities in the Industrial Solutions segment to recover in 2021.
- On balance, we expect to see a decline in both turnover and result this year.

Due in particular to the impact of the low order intake in Tire Building in the second and third quarter of 2020, the profit of TKH in the first half of 2021 will be lower than in the same period in 2020. For the full year 2021, TKH expects to record a higher profit. As usual, TKH will give a concrete profit forecast for the full year 2021 at the presentation of its interim results in August 2021.