

ANNUAL REPORT

2018

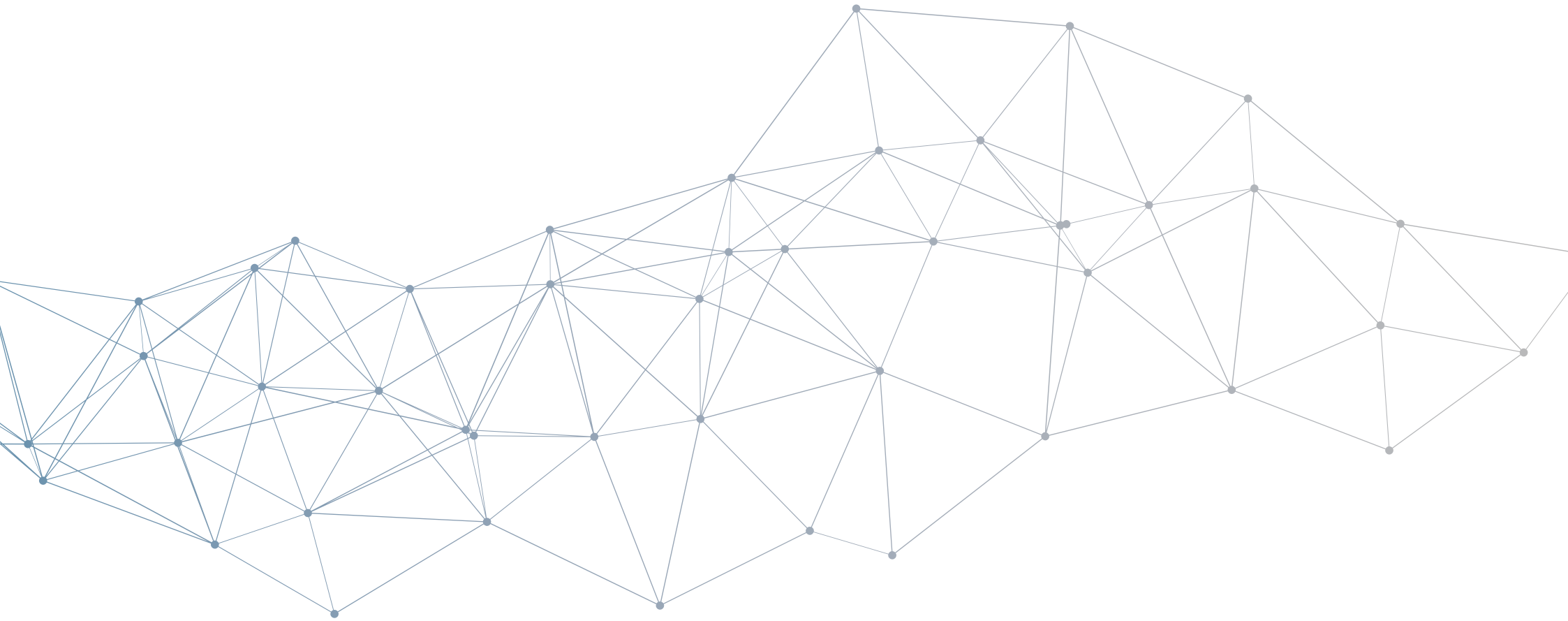


Smart Technologies <

SMART TECHNOLOGIES
THE HEART OF
OUR INNOVATIONS

ANNUAL REPORT 2018

TKH GROUP



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

TKH GROUP

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

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

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

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

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

HIGHLIGHTS 2018

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

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

TURNOVER

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

1,630.8 € MLN

TURNOVER GROWTH

High turnover growth of 12.0% in vertical growth markets.

+12.0%

STRATEGY

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

INNOVATIONS

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

20.8%

EBITA

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

+23.5%

NET PROFIT

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

121.1 € MLN

DIVIDEND PROPOSAL

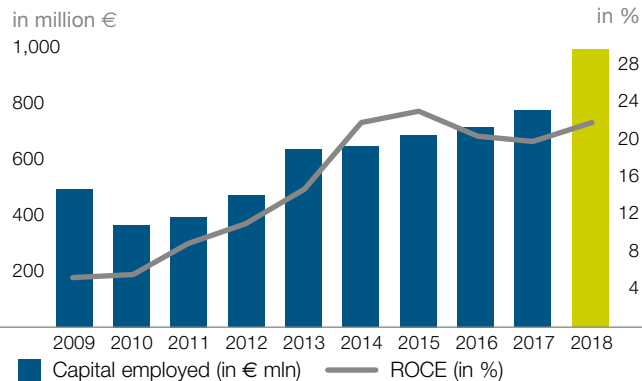
Dividend proposal: € 1.40 per (depository receipt of an) ordinary share.

1.40 €

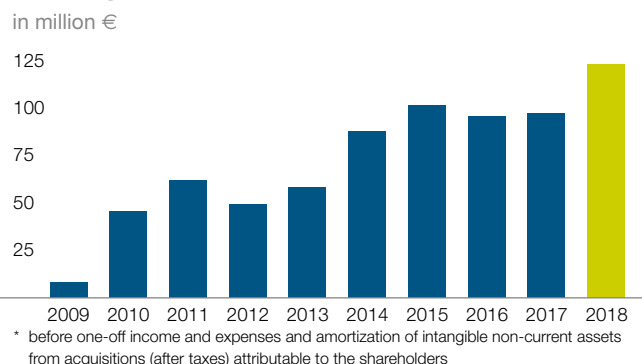
ACQUISITION

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

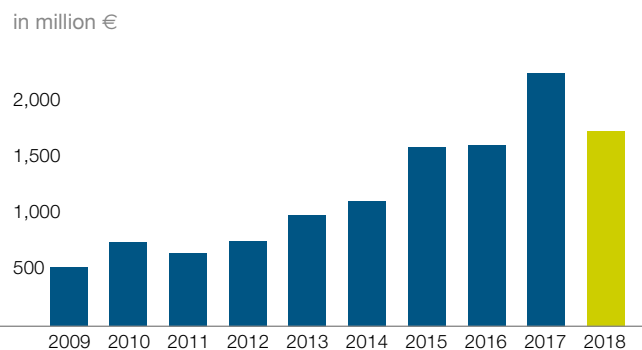
CAPITAL EMPLOYED AND ROCE



NET PROFIT *



MARKET CAPITALIZATION



KEY FIGURES

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

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

2 EBITA before one-off income and expenses.

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

4 In tangible non-current assets.

5 Including non-controlling interests.

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

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

MAKING BALANCED DECISIONS

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



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

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

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

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

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

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

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

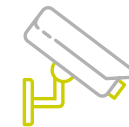
We would like to thank all our employees for their great commitment, enthusiasm and dedication to the further development of TKH. We are grateful to our customers, business partners, Supervisory Board, shareholders and holders of depositary receipts of shares for the trust they place in TKH and the support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

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

4 CORE TECHNOLOGIES

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

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



VISION & SECURITY

Vision technology consists of 2D and 3D camera sensor technology and 3D laser technology in combination with the digital processing of visual information to produce usable images or information for interpretation by people and/or machines. Amongst other things, vision technology is employed for inspections and for quality, product and process control. Within TKH, vision technology plays an important role in medical solutions, industrial automation (tire building, automotive sector, robotics and logistics) and in scientific research. Our security technology makes it possible to control and monitor urban environments in relation to safety, comfort and efficiency, and includes alarm and mission critical communication systems, access, registration and evacuation systems. For the mobility market, cameras and solutions are delivered for intelligent traffic systems.



MISSION CRITICAL COMMUNICATION

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



CONNECTIVITY

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



SMART MANUFACTURING

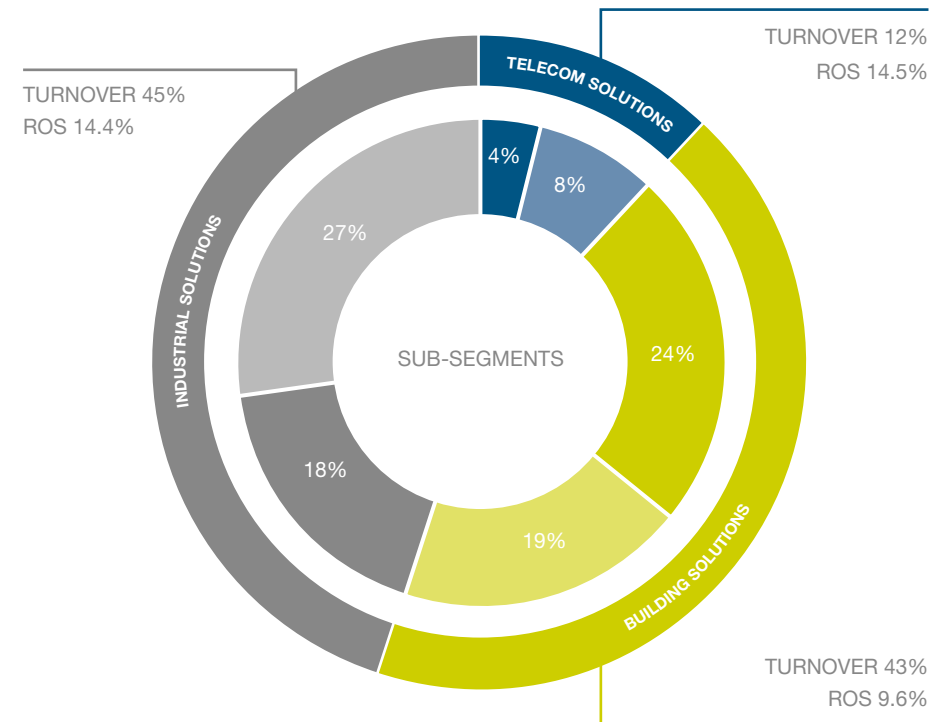
TKH uses its knowledge of the automation of production processes for controlling and monitoring industrial processes and also in comprehensive manufacturing systems for the production of car and truck tires, and the tin processing and care industries. Engineering and assembly of systems, control and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

3 BUSINESS SEGMENTS

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

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

TURNOVER PER BUSINESS SEGMENT



TELECOM SOLUTIONS

- Indoor telecom & copper networks
- Fibre network systems

BUILDING SOLUTIONS

- Vision & security systems
- Connectivity systems

INDUSTRIAL SOLUTIONS

- Connectivity systems
- Manufacturing systems

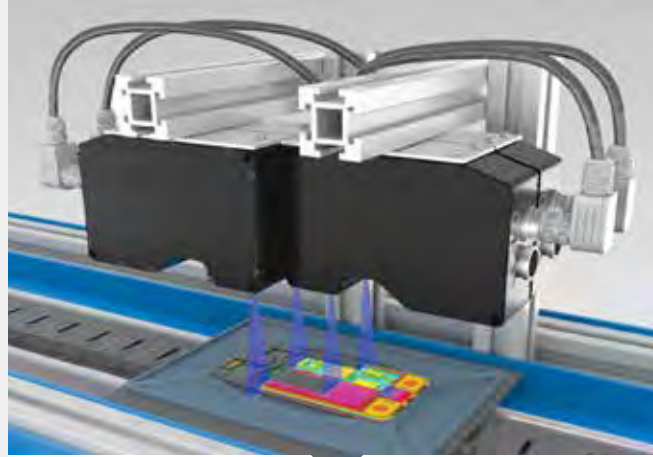


TELECOM SOLUTIONS

The core technologies vision & security, mission critical communication and connectivity are represented in Telecom Solutions. TKH develops, produces and supplies systems ranging from basic outdoor infrastructure for telecom and CATV networks through to indoor home networking applications. The focus is on supplying systems accompanied by warranties that relieve our customers from any concern. Around 40% of the portfolio consists of hub-to-hub optical fibre and copper cable systems. The remaining 60%, consisting of components and systems in the field of connectivity and peripherals, is deployed primarily in network hubs.

SUB-SEGMENTS TELECOM SOLUTIONS

- Indoor telecom & copper networks
- Fibre network systems



BUILDING SOLUTIONS

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

SUB-SEGMENTS BUILDING SOLUTIONS

- Vision & security systems
- Connectivity systems



INDUSTRIAL SOLUTIONS

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

SUB-SEGMENTS INDUSTRIAL SOLUTIONS

- Connectivity systems
- Manufacturing systems

7 VERTICAL GROWTH MARKETS

TKH focuses on seven defined vertical growth markets. These are markets in which we can achieve above-average growth. Thanks to close contact with our customers, we know these markets well, we are familiar with what is at stake and what their requirements are. The aim in particular is a high return on investment for our customers. In the next three to five years, we expect to achieve turnover growth of € 300 million to € 500 million in our seven vertical growth markets.



FIBRE OPTIC NETWORKS

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



CARE

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



TUNNEL & INFRA

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



PARKING

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

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




MARINE & OFFSHORE

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




MACHINE VISION

Vision technology consists of 2D and 3D camera sensor technology and 3D laser technology in combination with the digital processing of visual information to produce usable images or information for interpretation by people and/or machines. Vision technology is used to monitor, control or adjust industrial processes. We supply amongst others the robotics, mechanical engineering, consumer electronics, medical and automotive industries.




TIRE BUILDING INDUSTRY

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

TURNOVER(GROWTH) VERTICAL GROWTH MARKETS

in millions €

FIBRE OPTIC NETWORKS

TURNOVER 2018	134
BANDWITH GROWTH SCENARIOS	175-200

CARE

TURNOVER 2018	58
BANDWITH GROWTH SCENARIOS	70-100

TUNNEL & INFRA

TURNOVER 2018	98
BANDWITH GROWTH SCENARIOS	100-150

PARKING

TURNOVER 2018	58
BANDWITH GROWTH SCENARIOS	75-100

MARINE & OFFSHORE

TURNOVER 2018	69
BANDWITH GROWTH SCENARIOS	100-125

MACHINE VISION

TURNOVER 2018	129
BANDWITH GROWTH SCENARIOS	250-300

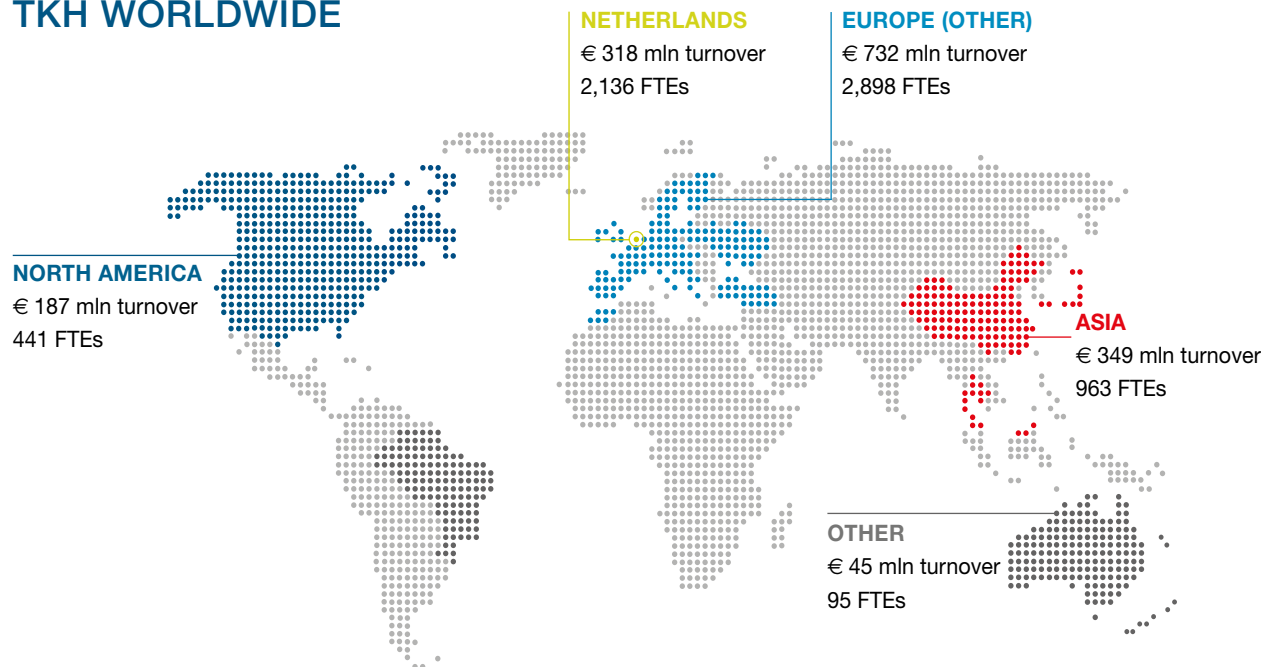
TIRE BUILDING INDUSTRY

TURNOVER 2018	333
BANDWITH GROWTH SCENARIOS	450-550

TECHNOLOGY COMPANY TKH

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

TKH WORLDWIDE



MISSION

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

LONG-TERM VALUE CREATION

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

TRENDS & DEVELOPMENTS

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

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

STRATEGY AND OBJECTIVES

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

LEADERSHIP AND EXPERTISE

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

ORGANIZATIONAL STRUCTURE

TKH has a decentralized organizational structure, based on the business segments Telecom, Building and Industrial Solutions. This structure allows TKH to respond quickly and flexibly to opportunities in the market and customer demands. We seek to achieve strong market positions based on our innovative core technologies, which are incorporated into total solutions (tailored or otherwise). TKH and its companies are active throughout the world while maintaining a local presence in strategically relevant areas, which makes it possible to maintain short communication lines and close contact with our customers anywhere in the world.

CULTURE AND GOVERNANCE

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

COMPETITIVE LANDSCAPE

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

TKH CORE VALUES

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

LONG-TERM VALUE CREATION

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

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

INPUT



FINANCIAL Financial position

Investors and banks provide us with capital through the capital and money markets. We invest capital particularly in our technologies and activities, from which we expect an above-average and long-term return.



PRODUCED In-house and outsourced manufacturing

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



HUMAN Employees and other strategic stakeholders

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



INTELLECTUAL Intellectual property

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



NATURAL Dealing with raw materials and general environmental values

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



SOCIAL AND RELATIONS Networks and joint ventures

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

VALUE CREATION

SUCCESS IN THE MARKET BASED ON STRATEGIC PRINCIPLES

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

CORE VALUES AS A GUIDELINE FOR OUR ACTIONS

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

BUSINESS MODEL

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

4 CORE TECHNOLOGIES

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

3 SOLUTIONS

- Telecom Solutions
- Building Solutions
- Industrial Solutions

7 VERTICAL GROWTH MARKETS

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

OUTPUT

FINANCIAL

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

PRODUCED

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

HUMAN

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

INTELLECTUAL

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

NATURAL

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

SOCIAL AND RELATIONS

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

OUTCOME

FINANCIAL

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



PRODUCED

- Turnover: € 1.6 billion
- Energy consumption in kWh: 104.4 million
- Energy consumption in CO₂: 49.1 million



HUMAN

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



INTELLECTUAL

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



NATURAL

- Energy consumption -3.0%
- CO₂ emissions -4.4%
- Waste of material usage (excl. learning curve effects): 4.9%
- Recycling: 79.0 %



SOCIAL AND RELATIONS

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



TRENDS & DEVELOPMENTS

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

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

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



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

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



TKH WISHES TO CONTRIBUTE TO A SUSTAINABLE SOCIETY.

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



GROWTH DRIVERS

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

FIBRE OPTIC NETWORKS

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

CARE

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

TUNNEL & INFRA

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

PARKING

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

MARINE & OFFSHORE

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

MACHINE VISION

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

TIRE BUILDING INDUSTRY

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

SWOT ANALYSIS

INTERNAL FACTORS

STRENGTHS

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

WEAKNESSES

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

EXTERNAL FACTORS

OPPORTUNITIES

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

STRENGTHS-OPPORTUNITIES STRATEGY

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

WEAKNESSES-OPPORTUNITIES STRATEGY

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

THREATS

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

STRENGTHS-THREATS STRATEGY

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

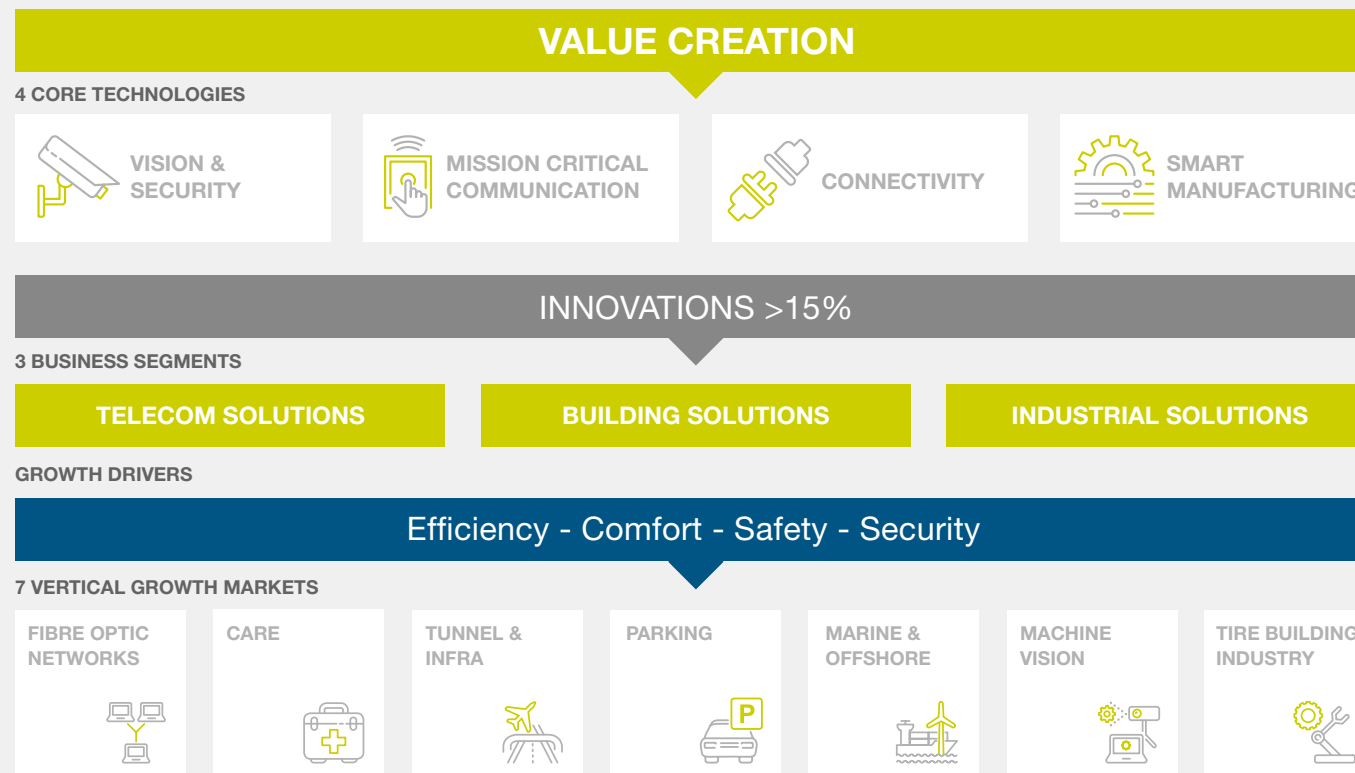
WEAKNESSES-THREATS STRATEGY

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

STRATEGY & OBJECTIVES

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

BUSINESS MODEL TKH GROUP



STRATEGIC PILLARS

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



CORE TECHNOLOGIES & INNOVATIONS

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



GROWTH & ECONOMIES OF SCALE

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



FINANCIAL STRENGTH

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

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



SUSTAINABILITY

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

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

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

OBJECTIVES

INNOVATIONS

> 15%

TURNOVER/ACQUISITION

€10 - 50 MILLION

NET DEBT / EBITDA

< 2.0

ROS

medium-term objective

12-13%

ROCE

medium-term objective

21-23%

RECYCLING








> 50%

WASTE

< 5%

BUILDING BLOCKS VERTICAL GROWTH MARKETS

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

 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 POP'S	BLISTERING-TECHNOLOGY FOR PHARMACY - INDIVISION	MARKET SHARE GROWTH BENELUX / NORDICS	MARKET GROWTH AND TKH POSITIONING NORTH AMERICA / EUROPE / AUSTRALIA / MIDDLE EAST	INTERNATIONALIZATION OF CONNECTIVITY-SOLUTIONS	MARKET SHARE GROWTH NORTH AMERICA / EUROPE / ASIA	NEW TIRE BUILDING PLATFORM UNIXX & MILEXX
	DISPENSER-TECHNOLOGY FOR MEDICINES			SPECIAL PORTFOLIO 'MISSION CRITICAL' COMMUNICATION	MEDICAL AND TIRE BUILDING INSPECTION SYSTEMS	INCREASE SHARE IN TURNOVER SERVICE & SPARE PARTS BUSINESS

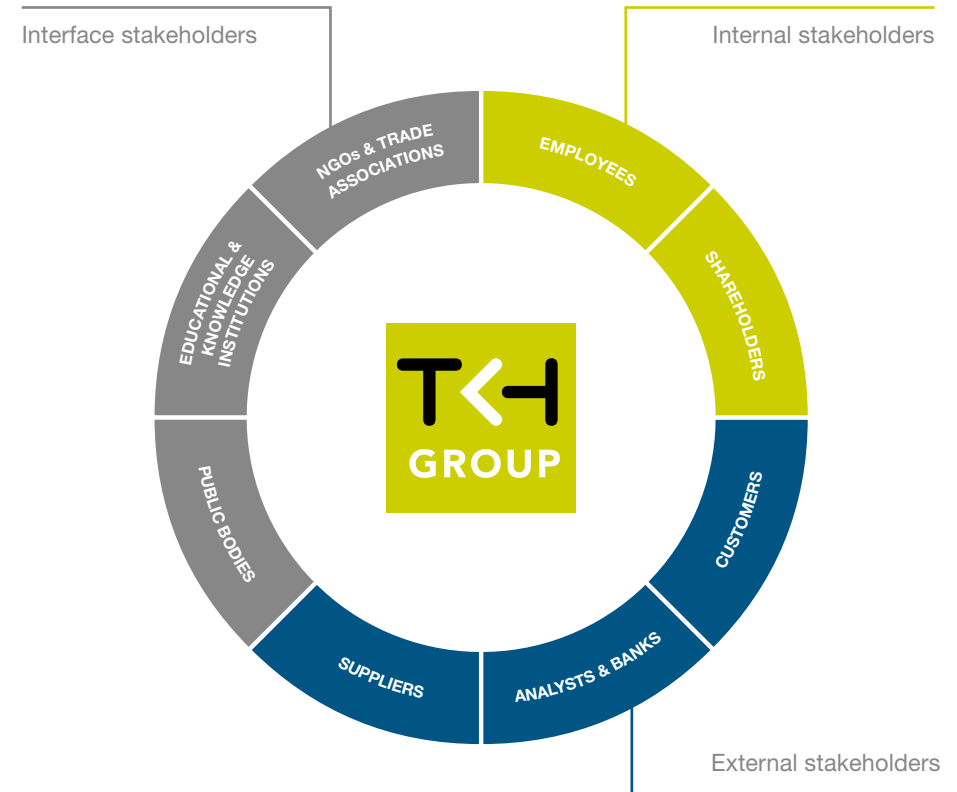
STAKEHOLDERS

Our stakeholders are those groups and individuals who directly or indirectly influence the activities of TKH and its subsidiaries, or who are themselves influenced by them.

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

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

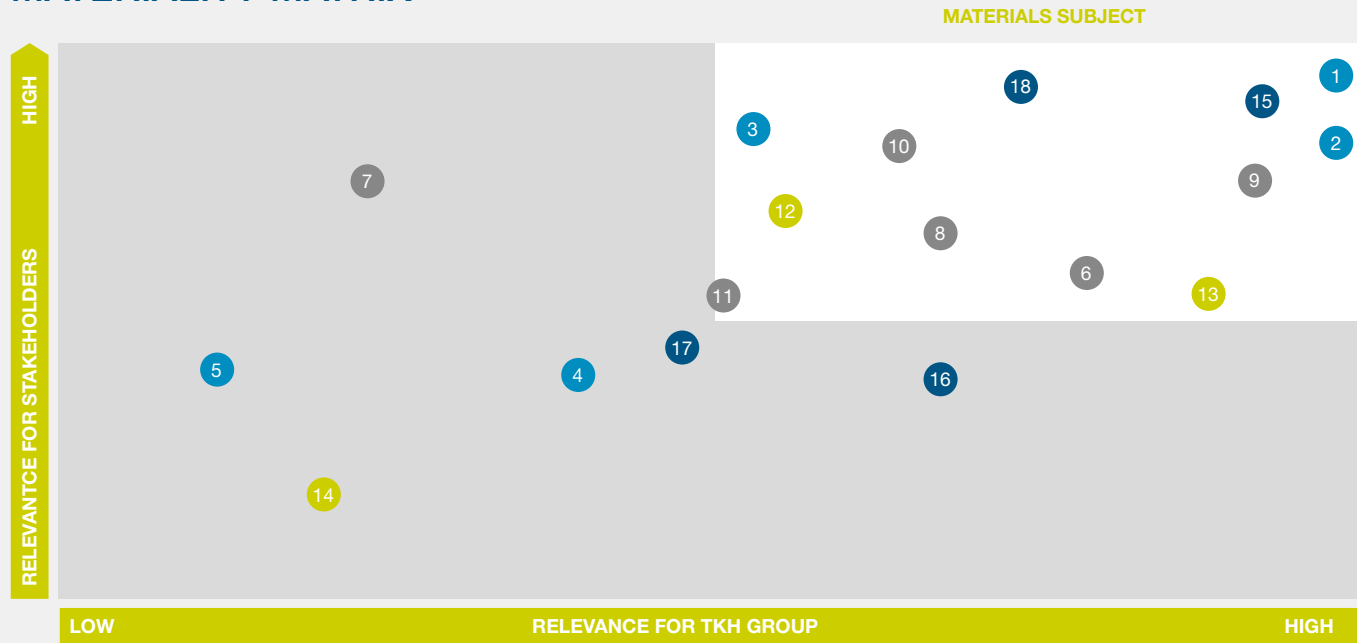
STRATEGIC STAKEHOLDERS TKH



STAKEHOLDERS DIALOGUE

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

MATERIALITY MATRIX






- ECONOMIC**
 - 1 Financial targets
 - 2 Innovation and technologies
 - 3 Prudent tax policy
 - 4 Supply chain initiatives
 - 5 Local presence
- SOCIAL**
 - 6 Education and training
 - 7 Socially Responsible Procurement (SRP)
 - 8 Sustainable employability
 - 9 Health and safety
 - 10 Diversity in the workforce
 - 11 Good causes
- ENVIRONMENT**
 - 12 CO₂ and energy reduction
 - 13 Consumption of raw materials and waste reduction
 - 14 Water
- GOVERNANCE**
 - 15 Integrity and general organizational principles
 - 16 Customer satisfaction
 - 17 Human rights
 - 18 IT, security and privacy

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

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

TKH AND THE SUSTAINABLE DEVELOPMENT GOALS

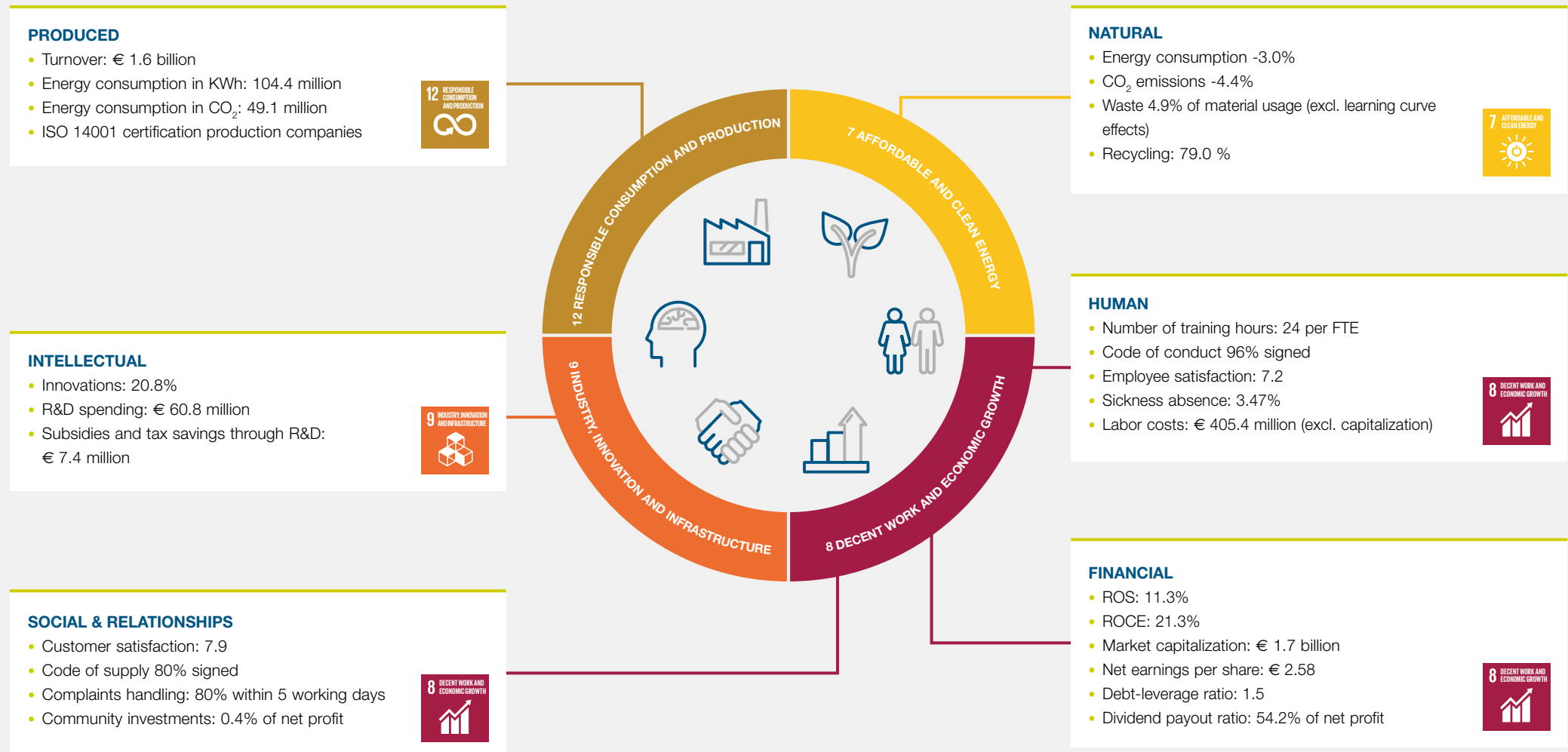
TKH recognizes the relevance of the SDGs (Sustainable Development Goals) and the role that the business community must play in order to achieve results. These goals constitute an action plan for a sustainable world. This action plan will gradually lead to change through new ways of cooperation and collective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

	STRATEGIC RELEVANCE TO TKH	VALUE WHICH TKH CAN CREATE	OUR CONTRIBUTION
7 AFFORDABLE AND CLEAN ENERGY 	Sustainability - in the case of all of our operations we consider their impact on the environment.	<ul style="list-style-type: none"> • Sustainable customer and product portfolio. • Innovation. • Energy and CO₂ reduction. 	In its daily operations TKH continuously pays attention to the reduction of its energy consumption and CO ₂ emissions. We have been working on reducing our energy consumption and CO ₂ emissions for over 10 years and manage this by setting firm objectives. In addition, TKH develops technologies and solutions that contribute to energy efficiency and the use of renewable energy, such as sustainable cable systems for wind farms and CO ₂ -neutral lighting systems.
8 DECENT WORK AND ECONOMIC GROWTH 	Growth and economies of scale - We offer an inspiring, educational working environment and seek to have an open business culture in which our employees are acknowledged and heard. In addition, we offer a safe and healthy working environment. Financial strength - As part of TKH's strategy we make effective use of opportunities for growth and limit financial and other risks.	<ul style="list-style-type: none"> • Innovations. • Good employment practices. • Financial targets. • Sustainable customer and product portfolio. 	TKH provides employees a safe, inspiring working environment. Employees may attend training courses enabling them to act effectively and to develop their skills further. Good primary and secondary employment conditions are self-evident. We also provide employment for people who are distanced from the labor market. Through both our business operations and our activities and technological solutions, we contribute to increased productivity, which stimulates the economy.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	Core technologies and innovations - Constant attention to innovation produces a range of products and services that guarantee technologically advanced solutions.	<ul style="list-style-type: none"> • Innovations. • Sustainable customer and product portfolio. 	Our technologies and solutions make it possible to build a sustainable infrastructure which complies with strict safety requirements and efficiency. TKH's technologies and complete solutions help our customers achieve sustainable operations and efficient production. We are making a contribution to a circular economy. TKH has identified innovation as a strategic priority for further growth. This SDG touches on TKH's core business.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION 	Core technologies and innovations - TKH strives to achieve a balanced, sustainable product portfolio with innovative concepts which are tailored to customer requirements. Sustainability criteria are becoming ever more relevant in this respect.	<ul style="list-style-type: none"> • Sustainable customer and product portfolio. • Innovations. • Energy and CO₂ reduction. • Consumption of raw materials and waste reduction. • Socially responsible procurement. 	TKH's environmental policy aims at the continuous improvement of environmental performance, in respect of which TKH has targets for waste reduction and recycling. All of our manufacturing companies are certified for the ISO 14001 environmental management system and work according to the LEAN principle to prevent wastage. In the design phase TKH selects its raw and other materials in such a way that they do have a minimal adverse effects on the environment. TKH discusses sustainability with its suppliers through its code of supply.

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

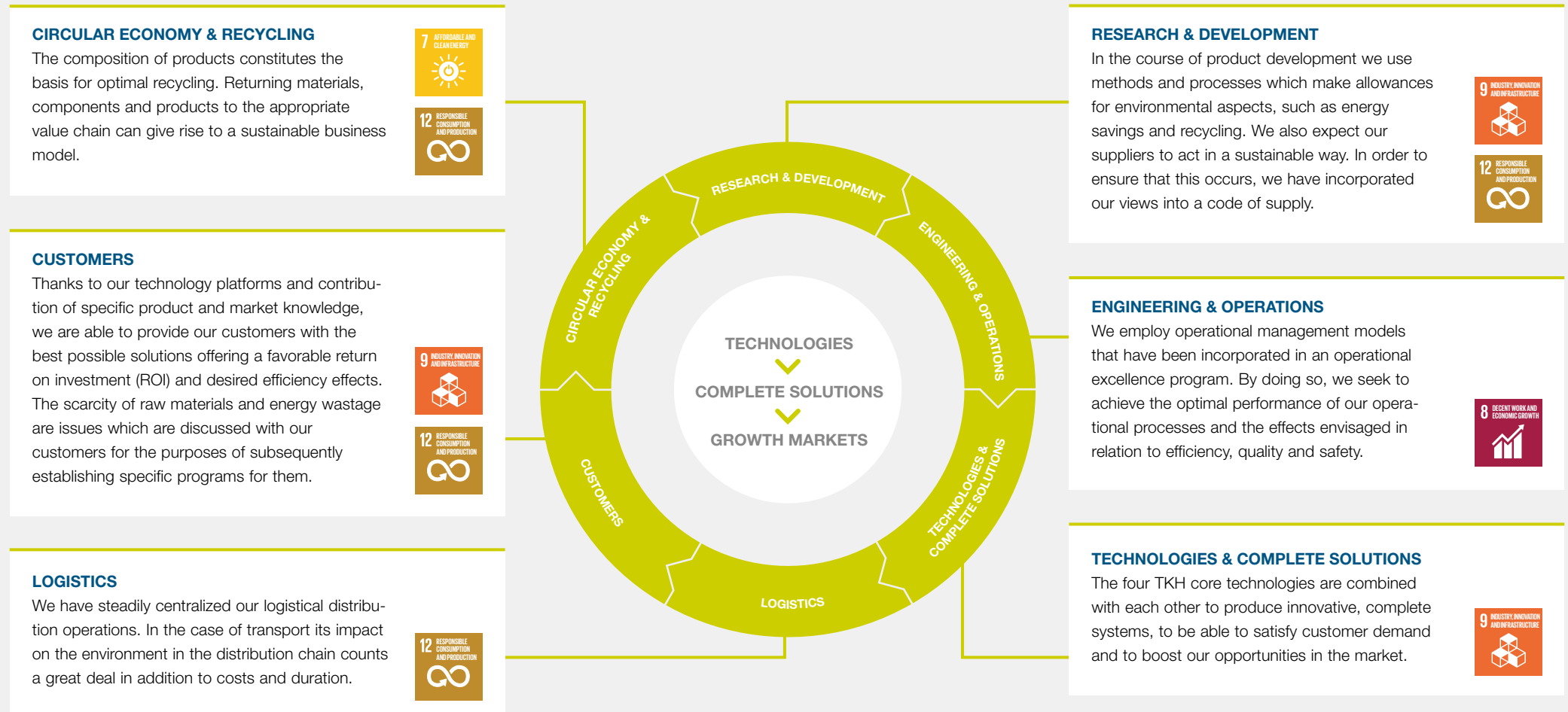
better in the future and to present reports, it is advisable to link quantitative information, in particular, to predefined goals.

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



TKH IN THE CHAIN

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



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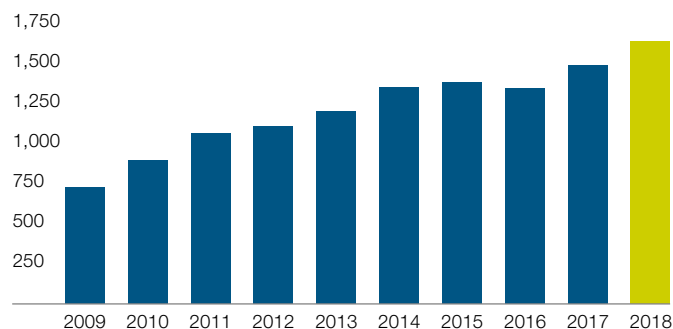
GENERAL DEVELOPMENTS

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

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

TURNOVER DEVELOPMENT

in million €



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

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

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

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

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



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

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

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

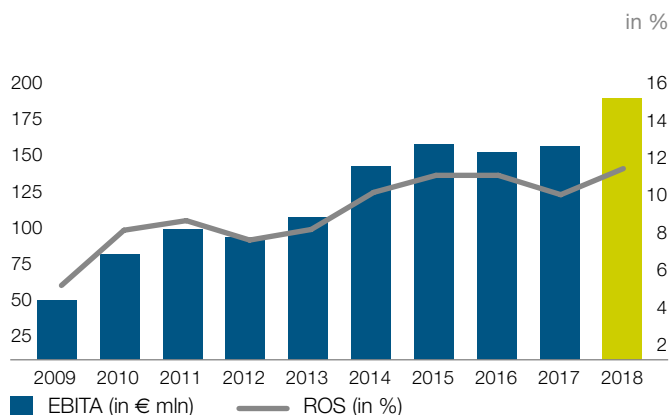
Our economies of scale increases efficiency, which enables us to continue to improve the return through investments in R&D, production capacity and market positioning. The combination of the various strategic steps we have taken means we are on track to realize our medium-term target of a ROS of 12-13%.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

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

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

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

EBITA AND ROS DEVELOPMENT *



* before one-off income and expenses

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

FINANCIAL DEVELOPMENTS

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

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

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

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

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

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

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

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

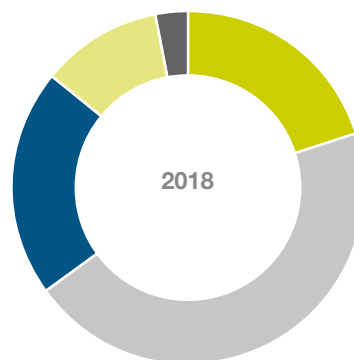
Amortization came in € 3.8 million higher at € 40.3 million, primarily due to the acquisition of Lakesight Technologies and higher R&D investments in recent years. In addition, TKH recognized impairments of on balance € 1.5 million.

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

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

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

GEOGRAPHICAL DISTRIBUTION OF TURNOVER in %



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

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

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



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

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

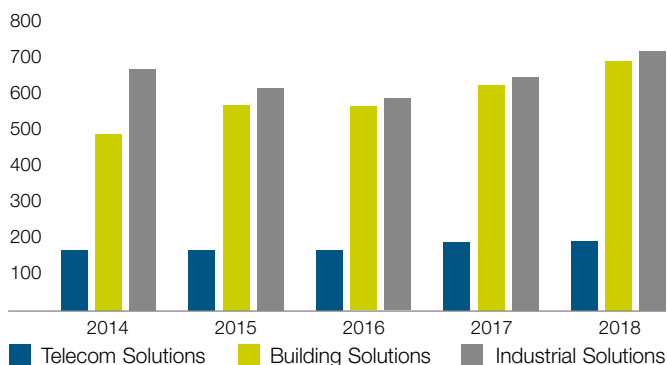
TKH had 6,533 employees (FTEs) at year-end 2018 (2017: 5,900). The company also had 496 (FTEs) temporary employees (2017: 522 FTEs).

DIVIDEND PROPOSAL

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

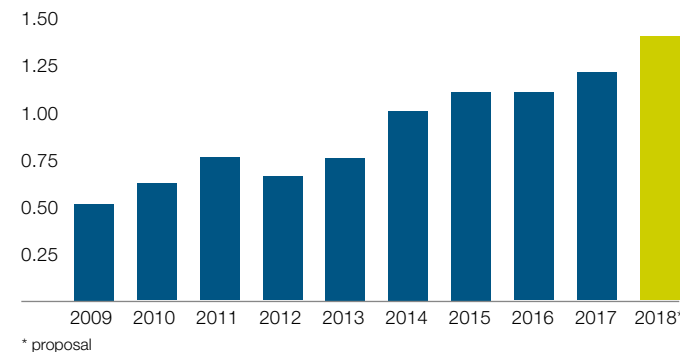
TURNOVER PER BUSINESS SEGMENT

in million €



DIVIDEND

in € per (depository receipt of) share



DEVELOPMENTS PER BUSINESS SEGMENT

TELECOM SOLUTIONS



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

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

FIBRE NETWORK SYSTEMS

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

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

INDOOR TELECOM & COPPER NETWORKS

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

KEY FIGURES TELECOM SOLUTIONS

in mln € (unless otherwise stated)

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

FIBRE NETWORK SYSTEMS

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

TURNOVER SHARE

7.7%

INDOOR TELECOM & COPPER NETWORKS

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

TURNOVER SHARE

4.3%

BUILDING SOLUTIONS

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

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

VISION & SECURITY SYSTEMS

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

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

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

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

CONNECTIVITY SYSTEMS

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

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



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

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

VISION & SECURITY SYSTEMS

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

TURNOVER SHARE

23.8%

CONNECTIVITY SYSTEMS

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

TURNOVER SHARE

19.3%

KEY FIGURES BUILDING SOLUTIONS

in mln € (unless otherwise stated)

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

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

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

INDUSTRIAL SOLUTIONS

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

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

CONNECTIVITY SYSTEMS

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

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

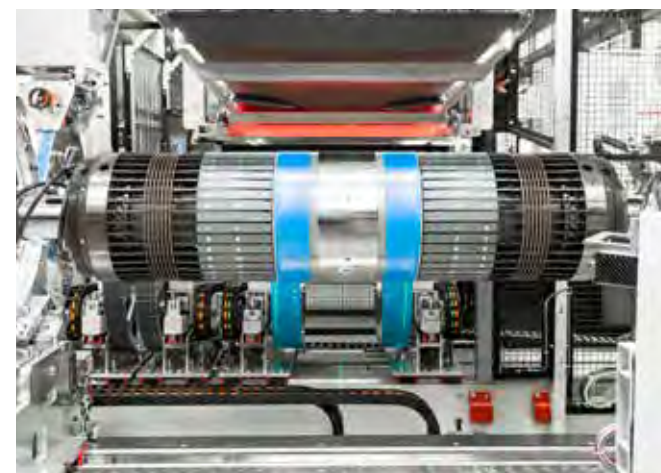
medical and industrial cable assemblies in Ukraine. Both investments contributed to the growth realized in 2018.

MANUFACTURING SYSTEMS

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

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

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



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

KEY FIGURES INDUSTRIAL SOLUTIONS

in mln € (unless otherwise stated)

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

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

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

CONNECTIVITY SYSTEMS

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

TURNOVER SHARE

18.3%

MANUFACTURING SYSTEMS

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

TURNOVER SHARE

26.6%

ACQUISITIONS, INVESTMENTS AND DIVESTMENTS

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

ACQUISITIONS

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

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

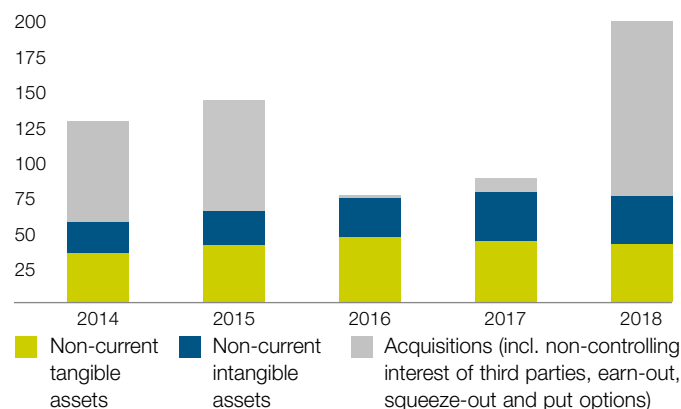
of innovative high-end vision technology for imaging systems with its head office in Germany. Lakesight consists of three operational entities, namely, Chromasens GmbH and Mikrotron GmbH in Germany and Tattile Srl in Italy. The business is active in the industrial and mobility markets. In the industrial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



INTELLIGENT TRAFFIC SYSTEMS OF LAKESIGHT (TATTILE SRL)

INVESTMENTS

in million €



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

DIVESTMENTS

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

INVESTMENTS IN TANGIBLE NON-CURRENT ASSETS

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

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

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

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

INVESTMENTS IN INTANGIBLE NON-CURRENT ASSETS

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

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

MANAGEMENT BOARD



MANAGEMENT BOARD TKH GROUP

On the picture from left to right:

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

STAFF TKH GROUP

Financial Affairs

Gertjan Sleeking

Internal Audit

Derk Postma

Legal Affairs

Maarten Fonkert

Corporate Development

Erik Velderman MBA

Personnel & Organization

Elling de Lange MBA
Renate Dieperink MBA

Company Secretary / CSR

Renate Dieperink MBA

PERSONNEL AND ORGANIZATION

The quality of both the organization and its employees is a decisive factor in the success and growth of the TKH Group. We demand much from our employees, who have a clear idea about what is expected of them and how they can make an active contribution. In addition, it is our duty to be a good employer and to motivate and help our employees as best possible so that they can carry out their work with enthusiasm. We offer our employees a safe and healthy working environment and give them opportunities for personal development. TKH has a decentralized organizational structure, which makes it possible for us to respond to market opportunities and customer requirements quickly and alertly.

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

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

CULTURE AND INTEGRITY

TKH has a culture as part of which entrepreneurship is encouraged. This entails pursuing an active approach to the market together with an in-depth analysis of opportunities and risks while adopting a restrained approach to and accepting risks. The Executive Board and management lead by example and provide guidance on the proper standards and values within the organization. An important starting point underlying TKH's management structure and its subsidiaries lies in ensuring that there is a good balance of personalities, expertise and skills in the company's senior ranks. Mutual respect is the basis for making properly considered decisions. A good balance between, for instance, the CEO and CFO is of considerable importance in this respect.



TKH highly values the integrity of its employees' conduct. This approach is predicated upon openness and transparency. An open professional attitude is encouraged by, amongst other things, the exemplary conduct of the Executive Board and the management teams and managerial staff of the subsidiaries and other key positions. A clear code of conduct, operational control and a zero-tolerance policy in relation to matters of principle, such as fraud, bribery and corruption, ensure that work is carried out in accordance with appropriate principles and arrangements. Behaviour has an impact on TKH's quality and results. Because of our open culture, our people feel involved in the company and call each other to account for any undesirable or unacceptable



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

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

MANAGING THE ORGANIZATION

Based on its market approach, TKH has defined seven vertical growth markets in which it has forecast the potential for the achievement of above-average growth. A member of the Executive Board is responsible for the achievement of the targets in each vertical market. In a number of vertical growth markets a manager is appointed, who bears ultimate responsibility for the vertical growth market in question and who reports to a member of the Executive Board. In order to

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

RISK MANAGEMENT

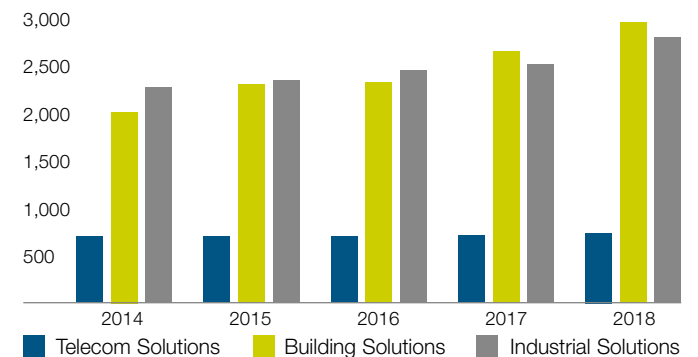
Business risks are limited by a tight and clear delineation of responsibilities and powers. The organization’s open, transparent culture, part of which entails that the organization is open to criticism, is a condition for appropriately dealing with responsibilities and powers, and for identifying risks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

promote cohesion between the companies, they have been arranged in clusters under a single manager who is responsible for them. The result is higher efficiency in managing the organization, since the clusters jointly organize activities, such as product development (R&D), marketing, communications and sales support. Moreover, this arrangement leads to consistency in branding and customer approach with clear positioning in the vertical growth markets. The companies were clustered further during the year under review.

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

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

NUMBER OF EMPLOYEES PER BUSINESS SEGMENT in FTE



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

TALENT DEVELOPMENT

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

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

EMPLOYEE REPRESENTATION

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



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

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

CENTRAL WORKS COUNCIL

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

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

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

CORPORATE SOCIAL RESPONSIBILITY

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

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



CSR STRATEGY

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

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

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

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

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

TRENDS

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

TRENDS IN CSR

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

STAKEHOLDER DIALOGUES

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

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

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

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

DILEMMAS

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

In certain markets, the price factor is still decisive, and there may be implicit reasons for reducing CSR efforts. In such situations, it is a challenge to convince the stakeholder of the importance of sustainability which, as a result, exceeds the price axis.

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

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

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

CSR OBJECTIVES

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

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

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

CSR DEVELOPMENTS IN 2018







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



SUSTAINABLE PRODUCT DEVELOPMENT OF ENERGY CABLES

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

RESULTS CSR 2018

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

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

** Excluding learning curve effects.

● Goal achieved ● Goal not achieved for short term

PEOPLE - CONSEQUENCES OF OUR BUSINESS OPERATIONS FOR OUR WORKFORCE

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

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

WORKFORCE AND REMUNERATION STRUCTURE

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

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

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



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

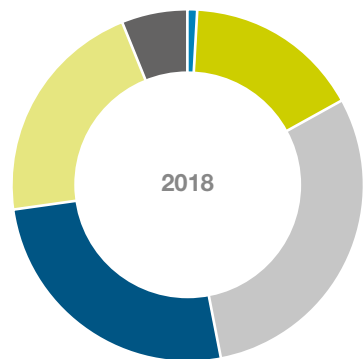
The principle of a living wage in the United Nations Universal Declaration of Human Rights is endorsed by TKH, including the view that everyone who works has the right to fair and favourable remuneration. In the discussions with our suppliers, we have identified a living wage as one of the themes during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

WORKFORCE RATIO MEN-WOMEN

in %

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

EMPLOYEES CLASSIFIED ACCORDING TO AGE in %



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

DIVERSITY

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

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

We want to make an extra effort to balance gender diversity

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

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

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

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

TRAINING, KNOWLEDGE DEVELOPMENT AND KNOWLEDGE SHARING

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

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



COMMITTED AND LOYAL WORKFORCE

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

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

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

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

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

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

SUSTAINABLE EMPLOYABILITY, HEALTH AND SAFETY

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



WINNER BEST COMPANY AWARD: ERNST & ENGRING



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

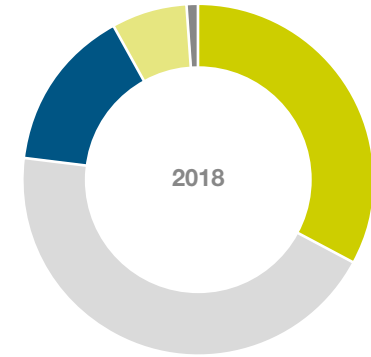
We believe it is important that our employees can work in a healthy, vital, competent and productive way.

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

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

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

GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES in %



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

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

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

PERFORMANCE INTERVIEWS

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

EMPLOYEE SATISFACTION

In order to measure our status as a good employer, we carry out employee satisfaction surveys (ESS) about every three years. The surveys provide important information regarding the motivation, satisfaction and expectations of our employees. Follow-up surveys also measure the effects of improvement actions. We carry out these surveys in collaboration with a specialized research agency.

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



ENTHUSING YOUNG PEOPLE ABOUT TECHNOLOGY

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

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

PLANET - THE EFFECTS OF THE BUSINESS ON THE NATURAL ENVIRONMENT



SUSTAINABLE LED LIGHTING

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

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

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

ENERGY AND EMISSIONS

For years now, we have been running a program for reducing energy consumption and monitoring our use of electricity (kWh), natural gas (m³) and fuels (litres). At 73% of the total kWh consumed, electricity consumption is the largest in terms of absolute volume, owing to its use in the production process, lighting, ventilation, air-conditioning and extraction systems. Gas represents 26% of the total kWh usage and is used for heating buildings and, to a much smaller extent (< 5%), process heating. We have seen a further decline in the consumption of diesel and fuel oil in recent years. This accounts for only 1% of total consumption and is particularly used in Asia for heating installations in buildings.

Energy consumption (in kWh) compared to total turnover decreased by 3.0% in 2018 compared to 2017. CO₂ emissions decreased by 4.4%. If we compare consumption with the reference year 2015, energy consumption in kWh decreased by 3.0% and CO₂ emissions decreased by 2.9%. We have been able to achieve energy savings despite some larger investments in manufacturing facilities that have had an increasing impact on energy consumption and as yet a

limited contribution to revenues. We are on track for the target of a 5% reduction in kWh and a 2.5% reduction in CO₂ emissions by 2020, with 2015 as the reference year. To a limited extent, TKH uses green certificates in order to make an accelerated contribution to energy and CO₂ reduction. Of course, we prefer a reduction in energy and CO₂ directly related to our daily activities. We focus on this permanently.

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

VEHICLE FLEET

'Greening' our vehicle fleet will also help to reduce CO₂ emissions. We have set ourselves the target of allowable maximum CO₂ emissions of 95 grams/km in 2020. The average CO₂ emissions in grams/km of TKH's existing Dutch lease fleet in 2018 were 90.1 grams/km (2017: 93.6 grams/km). The additions to the leased fleet in 2018 had average CO₂ emissions of 88.7 grams/km (2017: 101.5). There are an increasing number of electric cars in our fleet. Our leased fleet consists of 23.3% hybrid and electric cars (2017: 21.3%).

Our targets are still based on the 'old' emission test New European Driving Cycle (NEDC). This is currently being replaced by a new emission test that is used within the European Union, namely the Worldwide Harmonized Light Vehicle Test Procedure (WLTP). The WLTP is a new, refined test cycle that displays higher but also more realistic values for CO₂ emissions and fuel consumption. From 2020 onwards, the EU will convert the current (NEDC-based) CO₂ targets for the automotive industry to WLTP CO₂ targets of comparable weight. We will review our target for greening



the fleet once the transition to the WLTP is completed, so that the new CO₂ targets are also based on the WLTP.

REDUCTION OF RAW MATERIAL CONSUMPTION AND WASTE

Among other things, sustainable business practice is about making sustainable use of resources. TKH's Operational Excellence program enables us to continually focus on the efficient use of raw materials and reducing waste. Efficient management of materials and raw materials is relevant because of the high consumption of valuable metals such as copper and aluminium, which form an essential part of the production process, and because of the waste that is inevitably generated. The main raw materials used by TKH are copper, granulate and aluminium. All waste produced is in the non-hazardous waste category.

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

- Quantitative: We aim to reduce the quantity of waste at source structurally by increasing material productivity. We achieve a reduction of waste by improving processes and innovating.

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

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

79.0% of the total waste was recycled, while we set a minimum of 50% as a target (2017: 71.4%). Our copper supplier reprocesses pure copper waste into fully usable copper. So the figure for copper was almost 100% waste recycling. Plastics that have become unusable during the cable production process but are suitable for recycling are offered to waste processing companies with a view to turning them into new raw materials. Cables and odd lengths of cable are sorted as much as possible and we are looking into the possibility of completely recycling the cables. The same applies to the plastics used as insulation and sheathing material. In the year under review, investments were made in manufacturing equipment for the in-house recycling of cable waste. The goal is to be able to completely recycle the cable ourselves, which also means saving on the purchase of raw materials as well as on transport to the waste processor, which will have a beneficial effect on (indirect) CO₂ reduction.

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

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

PROFIT - A CONDITION FOR THE COMPANY'S CONTINUITY

TKH applies a strategy aimed at long-term value creation. TKH wishes to achieve healthy annual earnings growth per share, for example by boosting turnover growth and establishing a strong position in the high-potential business sectors of Telecom, Building and Industrial Solutions. TKH's most important financial objectives are stated in chapters 'Strategy and objectives' and 'Report of the Executive Board'.

TAXES

'Fair share' tax contributions have become an important social issue, partly as a result of the OECD Base Erosion and Profit Shifting (BEPS) project. Taxation has thus become an important part of the TKH strategy and corporate social responsibility policy. The tax position of TKH reflects the normal conduct of our business as well as the geographical

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

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

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

CORPORATE INCOME TAX IN 2018

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

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

POSITIONING - SAFEGUARDING OUR GOOD REPUTATION

TKH conducts its activities in accordance with principles of honesty, integrity and openness. We notify our stakeholders as much as possible of our operations and developments in the company. We underpin our sustainability policy on the basis of internationally recognized (quality) standards, labels and accreditation marks. We have a thorough risk-management system, on the basis of which we identify potential risks at an early stage so that they can be acted on and corrected. Our subsidiaries operate increasingly according to ISO standards relating to sustainability. Our subsidiary TKF has been certified for the CSR performance ladder for a number of years. Within the organization, this certification leads to more awareness of and commitment to sustainability, also because of the (pre-)audits to be carried out. Satisfying sustainability criteria plays an increasingly decisive role in our customers awarding contracts. CSR performance ladder certification allows us to demonstrate objectively that our CSR management system is in order.

SUSTAINABLE PRODUCT PORTFOLIO

TKH strives for a balanced product portfolio with innovative concepts tailored to the customer's wishes. Sustainability criteria are becoming increasingly relevant to this. Based on our innovation objective, we are also devoting attention to sustainable innovation. We have set ourselves the target that at least 15% of our turnover should derive from innovations introduced in the previous two years. The share of innovations in our turnover was 20.8% (2017: 22.2%). Our products and systems have the relevant accreditation marks and certificates and are supplied with clear manuals and specifications. If desired, we can supply measurement and test reports to demonstrate the quality of our products and systems. Our products are tested for a continuous improvement process based on the specifications. The potential impact on health and safety is also taken into account.

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

SUSTAINABLE RELATIONSHIP WITH THE CUSTOMER

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

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



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

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

INTEGRITY & GENERAL ORGANIZATIONAL PRINCIPLES

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

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

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

Part of the code of conduct is a whistleblower scheme. All TKH employees may report suspicions of wrongful conduct within TKH. Such a report will not affect the position of the whistleblower if the report is made in accordance with the procedure established for the purpose. Employees may consult a company Confidential Officer appointed for this purpose within their own organization, or the TKH Group Compliance Officer. If a report is made to an subsidiary that is qualified as inadmissible behaviour, the subsidiary's Confidential Officer will promptly notify the Compliance Officer of TKH Group, who is the central point of referral for integrity issues. The latter, acting together with the Executive Board, will deal with the report and, if desirable, will consult the company Confidential Officer of the subsidiary concerned. After the report has been investigated, the Executive Board will make a decision in consultation with the board of the subsidiary concerned or a representative of that board. In the year under review, no reports were received under the whistleblower scheme. It is difficult to draw clear conclusions about the level of awareness of integrity and the possibility of reporting abuses. We believe it is important to stimulate an open and transparent culture and measure such themes in the ESSs. The whistleblower scheme can be downloaded from the TKH website.

IT SECURITY & PRIVACY

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

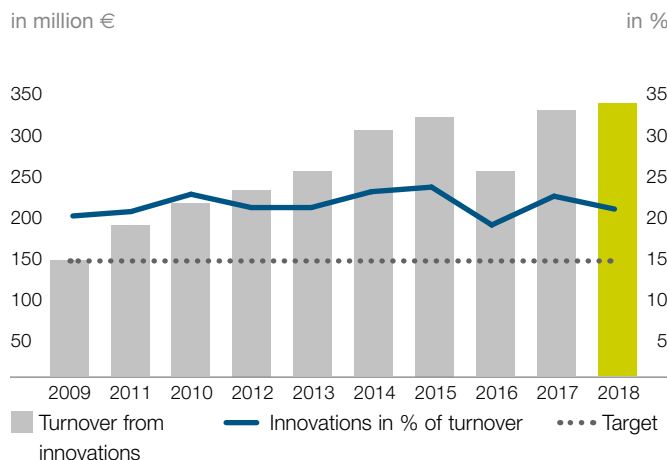
in IT systems. As a result of the IT audits, the themes of cybercrime and cyber risk have gained strong support in the organization and there is an awareness of possible risks. IT & Security is part of the focus area of Internal Audit, which ensures permanent attention for this topic. Further information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

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

CODE OF SUPPLY

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

TURNOVER FROM INNOVATIONS



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

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

HUMAN RIGHTS

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



MORE SUSTAINABLE LOGISTICS PROCESSES

When insourcing in external transport, TKH requires increasingly that transport companies have to provide the 'Lean & Green' certificate. Lean & Green Logistics is a CO₂-reduction program that encourages organizations to grow to a higher level of sustainability by taking

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

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

ANTI-COMPETITIVE BEHAVIOUR

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

SANCTIONS

We act strictly according to the letter of the law and/or regulations that are closely related to our business operations. Internal Audit has an important auditing function regarding our compliance with laws and regulations. In the event that sanctions are imposed on our company, we will explain the cause and the corrective actions that have been taken. In 2018 we did not incur any sanctions.

COMMUNITY INVESTMENTS

TKH sponsors social activities and supports charities. The spur for this is our social engagement, hence we have been supporting social initiatives in health, sport and culture. We regard sponsorship as a means of giving something back to people or organizations that need help. We wish to remain objective in this, which is why we do not support projects of a religious or political nature. We also use sponsorship to enhance our brand recognition and publicize our solutions. There is a distinction between sponsorship at TKH (holding



CAMPAIGN FOR ENVIRONMENTALLY FRIENDLY DRIVING

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

CSR OUTLOOK

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

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

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

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

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

company) level and sponsorship at subsidiary level, which mostly focuses on specific business activities or takes place locally. We also want to use sponsorship to increase the engagement and commitment of our employees. Last year too, TKH provided financial support for our employees to take part in socially-related sporting events. We also support cultural initiatives and local cultural heritage. In 2018, the TKH Group spent € 0.4 million on sponsorship and donations to charity. This was 0.4% of its net profit before one-off income and expenses (2017: 0.4%).

OUTLOOK

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

TELECOM SOLUTIONS

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

BUILDING SOLUTIONS

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

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

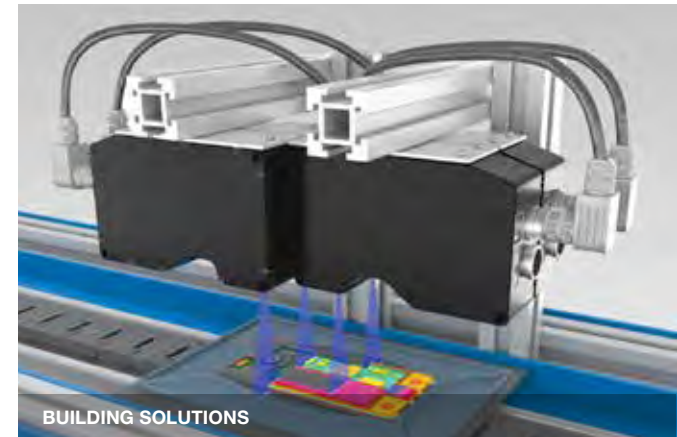
INDUSTRIAL SOLUTIONS

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

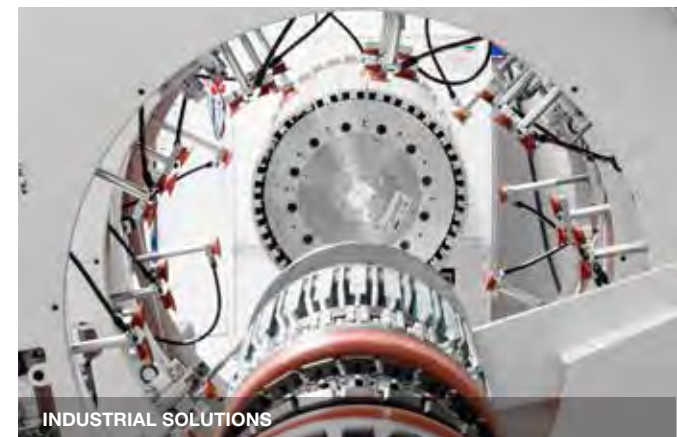
As usual, TKH will give a concrete profit forecast for the full-year 2019 at the presentation of its interim results in August 2019.



TELECOM SOLUTIONS



BUILDING SOLUTIONS



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MEMBERS EXECUTIVE BOARD



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

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

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



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

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

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



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

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

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

MEMBERS SUPERVISORY BOARD



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

chairman
1960
Belgian nationality

- 2014 first appointment
- 2022 term limit

- Chairman Selection and Appointment Committee

Main function

- CEO & President Septentrio Satellite Navigation

Current positions

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



MR. J.M. (MEL) KROON MBA

vice-chairman
1957
Dutch nationality

- 2017 first appointment
- 2021 term limit

- Member Selection and Appointment Committee
- Member Remuneration Committee

Main function

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

Current positions

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



MRS. C.W. (CARIN) GORTER RA

member
1963
Dutch nationality

- 2017 first appointment
- 2021 term limit

- Member Audit Committee

Main function

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

Current positions

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



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

member
1950
Dutch nationality

- 2009 first appointment
- 2021 term limit

- Chairman Audit Committee

Main function

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

Current positions

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



MR. R.L. (ROKUS) VAN IPEREN

member
1953
Dutch nationality

- 2011 first appointment
- 2020 term limit

- Chairman Remuneration Committee

Main function

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

Current positions

- Chairman Supervisory Board Prinses Maxima Centrum pediatric oncology for children

REPORT OF THE SUPERVISORY BOARD

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

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

COMPOSITION AND DIVERSITY

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

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

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

INTRODUCTION PROGRAM

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

CULTURE

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

The Supervisory Board provides the Executive Board with advice.

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

MEETINGS DURING THE YEAR UNDER REVIEW

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

of his views on the subjects to be discussed. Once the meeting has concluded, the absent member of the Supervisory Board is informed in person about the matters discussed. During the year under review, there were no subjects on the agenda that could potentially give rise to conflicts of interest. The discussion of the financial statements took place in the presence of the external auditor. In preparation for the meetings, as well as to discuss ongoing matters that arose during the year, the chairman of the Supervisory Board had regular contact with the chairman of the Executive Board.

SPECIFIC THEMES

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

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

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

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

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

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

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

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

ATTENDANCE OF MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

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

¹ Up to and including 3 May 2018.

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

COMPANY VISITS

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

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

CHANGES IN THE EXECUTIVE BOARD

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

CLOSED MEETINGS

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



COMPANY VISIT SUPERVISORY BOARD TO THE SUBSIDIARIES IN POLAND

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

REGULAR MEETINGS

In the regular meetings, the most prominent repeating agenda items are financial developments, acquisition possibilities, investments and divestments, and technological, organizational and market developments as well as Investor Relations. With a view to monitoring the strategic roadmap and the progress of strategic initiatives, the Executive Board provides an explanation at every meeting of the strategic scorecard. This includes explanations of the high-lights and low-lights per Solutions area, as well as the related actionable items for the short- and medium-term. During the year under review, recurring themes were the progress concerning the start-up of production for specialty cable systems in China, the start-up of the Polish facilities for tire building systems, the delivery of the first projects within subsea cable systems and CEDD technology, as well as the technological and market developments within the machine vision segment. In addition, the efficiency improvement programs were discussed with a number of companies to accelerate the increase in Return on Sales (ROS) in the medium-term.

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

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

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

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

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

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

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

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

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

CONTACT WITH THE CENTRAL WORKS COUNCIL

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

COMMITTEES

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

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



SELECTION AND APPOINTMENTS COMMITTEE

During the year under review, there was a change in the Selection and Appointments Committee due to the resignation of Ms. M.E. Van Lier Lels from the Supervisory Board. Her position was filled by Mr. J.M. Kroon MBA. As of 3 May 2018, the Selection and Appointments committee comprises Mr. A.J.P. De Proft MSc (Chairman) and Mr. J.M. Kroon MBA. The committee draws up the selection criteria and appointment procedure for members of both the Supervisory Board and the Executive Board. It assesses the size and composition of the Supervisory Board and the Executive Board and makes a proposal for a profile of the Supervisory Board.

The chairman of the Selection and Appointments Committee carries out individual performance review meetings with the members of the Executive Board once every year. The Committee also oversees the policy of the Executive Board in terms of selection criteria and appointment procedures for the company's senior management. Last year the Selection and Appointments Committee focused on filling the vacancy that arose in the Executive Board. To that end, discussions were held with the members of the Executive Board about the desired profile as well as with the intended candidate. The Committee prepared the evaluation of the Supervisory Board and the Executive Board. The Selection and Appoint-

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

REMUNERATION COMMITTEE

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

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

AUDIT COMMITTEE

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

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

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

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

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



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

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

EVALUATION

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

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

The communication from the Executive Board to the Supervisory Board takes place in an open, professional and constructive manner so that members of the Supervisory Board have a strong connection with strategic and operational issues. It has been established that there is a good working relationship between the Supervisory Board and the Executive Board, which are also sufficiently critical of one another. This is considered essential for the proper functioning of both Boards. It was also established that none of the members of the Executive Board have more than two demanding supervisory positions as referred to in the Dutch Management and Supervision Act. The Supervisory Board has no indications of any kind of conflict of interest between the company and members of the Executive Board. The Chairman of the Supervisory Board discussed the findings with the Executive Board.

IN MEMORIAM

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

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

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

ANNUAL FINANCIAL STATEMENTS FOR THE 2018 FINANCIAL YEAR

The Executive Board's management report and the 2018 financial statements were submitted to the Supervisory Board in accordance with the provisions in Article 31 of the articles of association. The financial statements were submitted for auditing to Ernst & Young Accountants LLP (EY), which subsequently issued an unqualified auditor's report on the financial statements based on the audit. The Supervisory Board has discussed the financial statements with the Executive Board in the presence of the external auditor, and subsequently approved the financial statements on 4 March 2019. The Supervisory Board submits the financial statements for the 2018 financial year to the General Meeting of Shareholders and recommends adopting the financial statements.

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

IN CONCLUSION

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

Haaksbergen, The Netherlands, 4 March 2019

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

REMUNERATION REPORT

This report describes the remuneration policy and the remuneration received by the members of the Executive Board and the remuneration of the members of the Supervisory Board. The remuneration policy is formulated by the Remuneration Committee and approved by the Supervisory Board. The remuneration policy was adopted by the General Meeting of 2005. Note 34 of the financial statements include a schematic overview of the remuneration of the Executive Board and Supervisory Board.

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

EXECUTIVE BOARD

REMUNERATION POLICY

The policy aims at providing a competitive compensation package to attract, motivate and retain qualified managers for a publicly listed company, while considering TKH's size and unique characteristics. It focuses on the long-term value creation of TKH and its affiliated companies. The compensation package is measured periodically against market trends using information provided by external experts. In addition, the internal remuneration ratios are taken into consideration. The compensation package is structured so that both short- and long-term objectives are maintained. According to the determined targets, the Remuneration Committee makes scenario analyzes with regard to the Short Term Incentive (STI) and Long Term Incentive (LTI) to be realized.

REMUNERATION

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

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

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

BASIC SALARY (TOTAL REGULAR INCOME: TRI)

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

PERFORMANCE BONUS (SHORT TERM INCENTIVE: STI)

Variable remuneration represents an important component of the remuneration package for the Executive Board. Every year, targets and criteria, on which the performance bonus is based, are set in advance by the Supervisory Board. The amount of the performance bonus is determined by the extent to which targets and criteria are met. The maximum performance bonus has been set at 60% of the basic salary (TRI). The Supervisory Board, on the recommendation of the Remuneration Committee, sets the performance bonus amount on the basis of the targets and criteria that have been met. The realization of 50% of the maximum bonus is based on EBITA-targets and 30% is based on autonomous

revenue growth targets. The other 20% of the maximum bonus is determined by the realization of personal targets and criteria focused on, among other things, non-financial performance such as corporate social responsibility, innovation and the progress of the realization of growth scenarios of the vertical markets. Realization 'at target' results in a bonus of 40% of basic salary (TRI). The Supervisory Board has the discretionary power to depart from the set targets where exceptional circumstances arise. The realization of the targets and criteria for 2018 resulted in 50% of the maximum performance bonus of basic salary (TRI) for Messrs Van der Lof, De Lange and Voortman, based on a realization of 83% of the maximum performance bonus. The Supervisory Board has the discretionary power to recover from the Executive Board the variable remuneration granted that is based on incorrect (financial) data. In line with the Claw-Back legislation, payment of the variable remuneration to the members of the Executive Board takes place subject to the condition of the correctness of the relevant (financial) data.

SHARE SCHEME (LONG TERM INCENTIVE: LTI)

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

The development of ROS and ROCE related to the pre-formulated objectives as well as the share price development in comparison to the for TKH relevant AMX-index, result in share allotment. The long-term targets for the Executive Board relate to the TKH-objectives set in this annual report. The scheme sets a maximum allotment at factor 2.7 of the basic salary (TRI). The shares in question are to be held as a long-term investment and may not be sold for a period of three years. Based on the realized targets for 2018,

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

CEO PAY RATIO

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

LABOR MARKET PEER GROUP

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

PENSION

The Remuneration Committee supervises that Executive Board members' pension is in line with generally accepted standards and ensures that it is compatible with the pension schemes available for similar posts. In addition the pension arrangements include the right to benefit in the case of poor health or invalidity and a widow's and orphan's pension in the event of death subject to conditions similar to those applicable to participants in the collective pension fund. More information on pensions is included in notes 17 and 34 of the financial statements.

PERSONAL LOANS

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

CHANGE OF CONTROL

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

SEVERANCE PAY

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

SUPERVISORY BOARD

REMUNERATION

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

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

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



INNOVATION STEP THROUGH KNOWLEDGE SHARING

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

CORPORATE GOVERNANCE AT TKH

TKH Group N.V. is a public limited company under Dutch law and voluntarily applies the limited two-tier entity regime. The management of the company lies with the Executive Board under the supervision of the Supervisory Board. The Executive Board and the Supervisory Board are responsible for the Corporate Governance structure at TKH and compliance with the Dutch Corporate Governance Code ('Code').

CORPORATE GOVERNANCE STRUCTURE

The Executive Board and the Supervisory Board attach great importance to compliance with the principles of integrity, accountability and transparency in the management and oversight of the company. The Governance structure at TKH is based on Book 2 of the Dutch Civil Code, the company's articles of association, the Code and various internal regulations.

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

1 LONG-TERM VALUE CREATION

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

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

2 EFFECTIVE MANAGEMENT AND OVERSIGHT OF EXECUTIVE BOARD

Tasks and responsibilities

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

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

COMPOSITION

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

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

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

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

Appointment, suspension or dismissal

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

- The General Meeting of Shareholders can cancel the binding nature of a nomination by resolution passed with an absolute majority of the votes cast, representing at least one-third of the issued capital.
- If the General Meeting of Shareholders has cancelled the binding nature of a nomination on two occasions, it is free to appoint a member of the Executive Board for the vacancy, with the proviso that it can only do so with an absolute majority of the votes cast, representing at least one-third of the issued capital, and in compliance with the other requirements laid down in TKH's articles of association.
- The General Meeting of Shareholders may suspend or dismiss a member of the Executive Board. If the Supervisory Board has proposed the suspension or dismissal of a member of the Executive Board to the General Meeting of Shareholders, the General Meeting of Shareholders may resolve to do so with a simple majority of votes.
- If the Supervisory Board has not put forward a proposal, the General Meeting of Shareholders may only resolve to suspend or dismiss a member of the Executive Board with an absolute majority of the votes cast, representing more than one-third of the issued capital of TKH, and in compliance with the other requirements laid down in TKH's articles of association.
- A member of the Executive Board may be suspended by the Supervisory Board at any time.
- The Executive Board, as well as each individual member of the Executive Board, is independently authorized to represent the company.

Integrity and ethics

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

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

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

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

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

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

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

Internal Audit

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

SUPERVISORY BOARD

Tasks and responsibilities

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

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

Composition

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

Appointment, suspension or dismissal

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

- Members of the Supervisory Board are appointed by the General Meeting of Shareholders on the recommendation of the Supervisory Board. The General Meeting of Shareholders may reject the nomination by an absolute majority of the votes cast, representing at least one-third of the issued capital. If the General Meeting of Shareholders does not appoint the nominated person and does not resolve to reject the nomination, the Supervisory Board shall appoint the nominated person. Account is taken of the criteria referred to in the profile when nominating candidates.
- The Central Works Council and the General Meeting of Shareholders may recommend candidates for the Supervisory Board.
- The Central Works Council has a special right of recommendation in respect of one-third of the members of the Supervisory Board. If the Supervisory Board rejects the recommendation, consultations with the Central Works Council shall be initiated.
- If the Supervisory Board and the Central Works Council fail to reach agreement, the Enterprise Chamber shall make the final decision.
- The General Meeting of Shareholders may pass a resolution of no confidence in the Supervisory Board by an absolute majority of the votes cast, representing at least one-third of the issued capital, resulting in the immediate discharge of the members of the Supervisory Board. Prior to this, the Central Works Council must be given the opportunity to take a position on the matter. The Supervisory Board may suspend a Supervisory Board member.
- A Supervisory Board member is appointed for a period of four years and may thereafter be reappointed for a period of four years. As per the Code and the articles of association of TKH, a member of the Supervisory Board

may thereafter be reappointed for a term of appointment of two years that may subsequently be extended by a maximum of another two years. Reappointment after a period of eight years is substantiated in the Report of the Supervisory Board. At appointment or reappointment, the profile as referred to in best-practice provision 2.1.1 is taken into account. The time of resignation of members of the Supervisory Board is recorded in a retirement schedule.

- The Supervisory Board appoints from among its members a Chairman as well as a Vice-Chairman to replace the Chairman should the occasion arise. The Vice-Chairman is also the point of contact for individual members of the Supervisory Board and members of the Executive Board concerning the functioning of the Chairman.
- TKH endorses the principles and underlying best-practice provisions as set out in the Code as they relate to the Supervisory Board and applies them.

External auditor

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

REMUNERATION

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

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

- The Executive Board has a share purchase scheme in place and no option scheme. The share plan involves a financial compensation for the Executive Board since the individual members must buy the same number of shares as the number that are awarded 'free of charge' within the framework of the plan. Due to this financial compensation for the members of the Executive Board, it is stipulated that the shares must be held for at least three years (3.1.2. v.i.). Given that this scheme requires a private investment obligation of the individual members of the Executive Board, the Supervisory Board is of the opinion that it is fair and reasonable that a term of three years is applied.

GENERAL MEETING OF SHAREHOLDERS

- A General Meeting of Shareholders is held annually. Extraordinary General Meetings are held as often as considered desirable by the Executive Board or Supervisory Board and also as often as requested in writing to the Executive Board or Supervisory Board by shareholders and/or holders of depositary receipts, representing at least 10% of the issued capital, with a specification of the topics to be discussed.
- TKH endorses the principles and underlying best practice provisions as set out in the Code as they relate to the shareholders and applies them. TKH follows the provision relating to stipulating a response time as stated in the Code but at the same time follows with great interest the developments of the wider public debate that has arisen regarding the functioning and effectiveness of the measures that companies can take to respond adequately to proposals for fundamental strategy changes that do the most justice to long-term value creation and the interests of all stakeholders.

ISSUE OF DEPOSITARY RECEIPTS OF SHARES

- Stichting Administratiekantoor TKH Group ('Stichting Administratiekantoor') holds ordinary shares in the company. In exchange for these shares Stichting Administratiekantoor issues depositary receipts of those shares. The voting rights to the shares are vested in Stichting Administratiekantoor. If requested to do so by the holders of depositary receipts, Stichting Administratiekantoor must give them authorization to cast a vote, to the exclusion of Stichting Administratiekantoor, on the shares for which the holder has depositary receipts at a General Meeting of Shareholders specified in the proxy. The authorization is unrestricted and is therefore not subject to any exchangeability limit. Stichting Administratiekantoor is not required by law (Article 2:118a of the Netherlands Civil Code) to grant the proxy or may withdraw a proxy that has been given if a) a hostile public offer is announced or made or is expected to be made, b) one or more persons

possess at least 25% of the depositary receipts and/or shares, or c) in the opinion of Stichting Administratiekantoor the voting right of a holder of a depositary receipt is fundamentally in conflict with the interest of the company. If Stichting Administratiekantoor avails of one of these possibilities, it must notify the holders of depositary receipts stating reasons.

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

Executive Committee of Stichting Administratiekantoor

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

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

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

Exercising voting rights

- TKH's articles of association allow the Executive Board to decide that shareholders may exercise their voting rights before the General Meeting of Shareholders by electronic means. TKH offers shareholders and holders of depositary receipts of shares the possibility of issuing a proxy to vote in accordance with the E-voting system prior to the General Meeting of Shareholders.
- Stichting Administratiekantoor exercises the rights attached to the shares in such a way that the interests of the company and its associated businesses and all its stakeholders are protected as well as possible, and does not focus primarily on the interests of the holders of depositary receipts of shares when exercising its voting rights as defined in best-practice provision 4.4.5 of the Code. Stichting Administratiekantoor thus exercises its voting right in line with legal provision 2:118a, as described in more detail above under 'Issue of depositary receipts of shares'. In the General Meeting of Shareholders, the Executive Committee of Stichting Administratiekantoor may on request issue a statement of its intended voting conduct. This method of exercising its voting rights in relation to the shares derives from the function of 'Issue of depositary receipts of shares' as described above.

CORPORATE GOVERNANCE STATEMENT

This is a statement concerning Corporate Governance as referred to in article 2a of the Decree on the content of the report of the Executive Board [Decision 'Inhoud Bestuursverslag'] (the 'Decree'). The information required to be included in this Corporate Governance statement pursuant to articles 3, 3a and 3b of the Decree can be found in the following chapters, sections and pages of the Report of the Executive Board 2018 and are deemed to be included and repeated in this statement.

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

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

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



MAXIMUM ECONOMIC PACKAGING

In collaboration with the freight forwarder, VMI has increased the efficiency of its logistics and on-site operations by packing and transporting modular parts of the machine line in exactly the right order in the containers so that they can be unpacked and assembled in the most efficient order at the point of arrival. Due to the modular structure, the size of the tire building machines has also been adapted and optimized, so that maximum economic packaging is achieved and fewer containers are required. The machines in the container are placed on skids. These are designed so that optimum use is made of the available space in containers. This results in huge savings in terms of space and cost, and a reduction in CO₂ emissions due to less transportation.

RISK MANAGEMENT

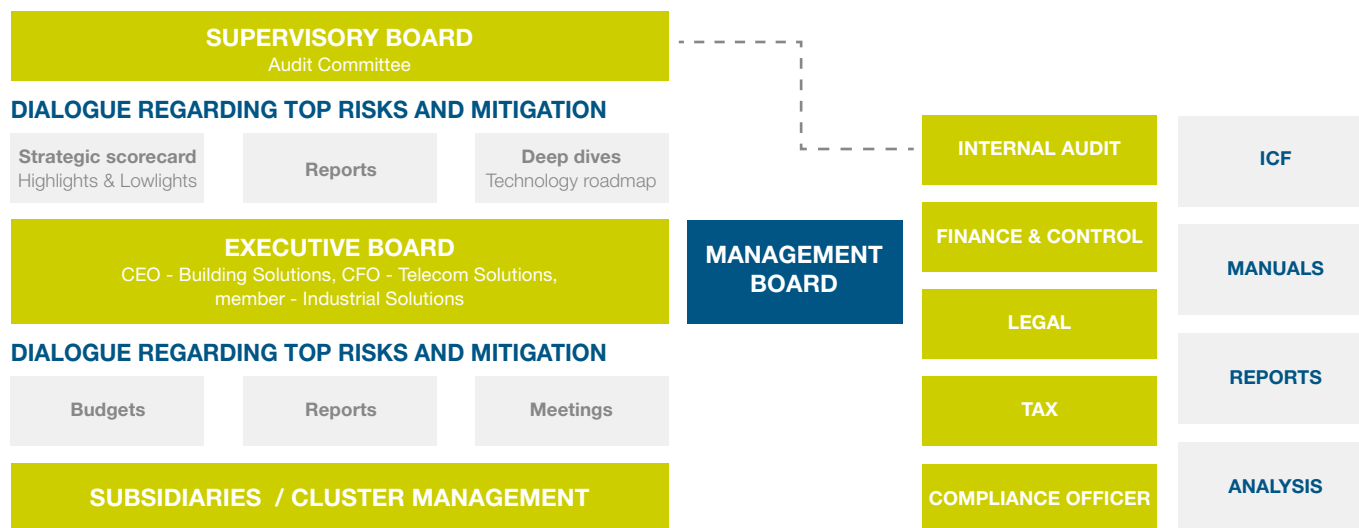
The Executive Board is responsible for compliance with all relevant primary and secondary legislation and for managing the risks associated with the company's activities through the appropriate implementation of internal risk management and auditing systems. This involves surveying and analyzing the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

RISK MANAGEMENT STRUCTURE

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

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

RISK MANAGEMENT STRUCTURE



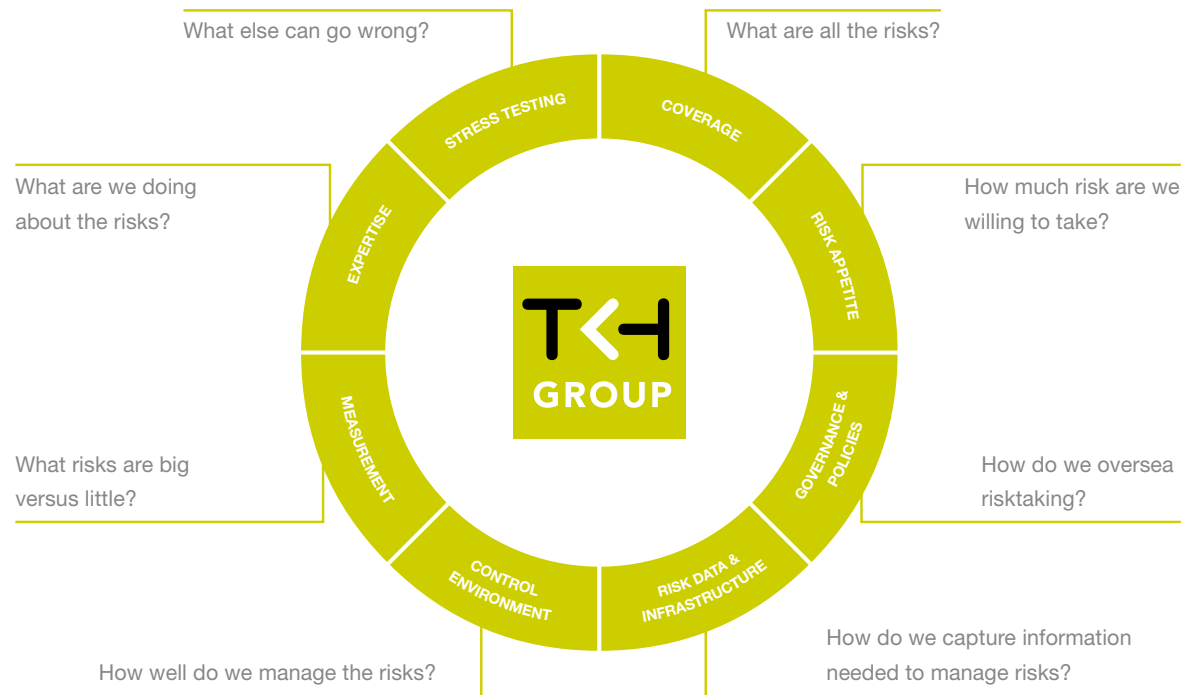
The risk management policy is tailored to the size and decentralized structure of TKH. The components of the TKH risk management policy are assessed by the Internal Audit department. Each subsidiary's main strategic, operational, financial, reporting and compliance risks are identified and analyzed and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

RISK CULTURE

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

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

RISK CULTURE



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

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

DEVELOPMENTS IN 2018

In 2018, there were no significant risks and uncertainties that had a significant impact on TKH. General risks that may apply and therefore have an important impact on TKH have been mentioned in this annual report. The internal risk management system was again evaluated and a number of improvements were made. The risk assessments were

updated. Continuous monitoring takes place in order to adjust the analyses to changing internal and external conditions if necessary. In addition, the primary processes for the most important subsidiaries were included in the Internal Control Framework in 2018. This has become part of the periodic financial reporting. The other processes and remaining subsidiaries will be integrated into the Framework in 2019.

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

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

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

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

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

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



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

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

RISK PROFILE AND RISK APPETITE

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

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

RISKS AT A GLANCE

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

▲ increased ▬ equal ▼ decreased

● averse ● low ● medium ● high

OUR MAIN RISKS

STRATEGIC

MARKET & GEOPOLITICS

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

SPECIFIC RISK MITIGATION MEASURES

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

PLANNED ACTIONS IN 2019

- Further risk analysis during strategy execution.

RISK APPETITE ●

RISK TREND ▲

TECHNOLOGY & INNOVATION

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

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

SPECIFIC RISK MITIGATION MEASURES

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

PLANNED ACTIONS IN 2019

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

RISK APPETITE ●

RISK TREND ▲

M&A AGENDA

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

SPECIFIC RISK MITIGATION MEASURES

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

PLANNED ACTIONS IN 2019

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

RISK APPETITE ●

RISK TREND ▬

OPERATIONAL

PROJECT MANAGEMENT

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

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

SPECIFIC RISK MITIGATION MEASURES

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

PLANNED ACTIONS IN 2019

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

RISK APPETITE ●

RISK TREND ▲

IT & SECURITY

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

The following elements are important in this respect:

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

SPECIFIC RISK MITIGATION MEASURES

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

PLANNED ACTIONS IN 2019

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

RISK APPETITE ●

RISK TREND ▲

PERSONNEL

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

SPECIFIC RISK MITIGATION MEASURES

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

PLANNED ACTIONS IN 2019

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

RISK APPETITE ●

RISK TREND ▲

FINANCIAL AND REPORTING

CURRENCIES

Volatility of currencies which puts pressure on profit margins.

SPECIFIC RISK MITIGATION MEASURES

- Treasury Statute that establishes the currency risk management, including responsibilities, authorizations and reports.
- Material exchange rate risks are hedged in accordance with the Treasury Statute if these risks cannot be passed on in the market.
- Exchange rate risk that arises from the translation of net investments in currencies other than the euro are partly hedged by financing investments in local currency. Monetary assets and liabilities in the same currency are netted as much as possible.
- Time differences between the settlement of forward transactions and sales and purchase contracts are overcome by using foreign currency bank accounts or by rolling over forward contracts.

PLANNED ACTIONS IN 2019

- Constant attention is paid to exchange rate developments.

RISK APPETITE ●

RISK TREND ==

RAW MATERIAL PRICES

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

SPECIFIC RISK MITIGATION MEASURES

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

PLANNED ACTIONS IN 2019

- Constant attention is paid to raw material price developments.

RISK APPETITE ●

RISK TREND ==

REPORTING

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

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

SPECIFIC RISK MITIGATION MEASURES

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

PLANNED ACTIONS IN 2019

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

RISK APPETITE ●

RISK TREND ==

COMPLIANCE

COMPLIANCE

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

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

SPECIFIC RISK MITIGATION MEASURES

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

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

PLANNED ACTIONS IN 2019

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

RISK APPETITE ●

RISK TREND ==

TAX

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

SPECIFIC RISK MITIGATION MEASURES

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

PLANNED ACTIONS IN 2019

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

RISK APPETITE ●

RISK TREND ==

OTHER RISKS

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

STRATEGIC

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

OPERATIONAL

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

FINANCIAL AND REPORTING

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

QUANTIFICATION OF RISKS AND SENSITIVITY ANALYSIS

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

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

GOING CONCERN AND PROSPECTS

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

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

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

QUANTIFICATION OF RISKS

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

MANAGEMENT STATEMENT

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

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

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

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

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

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

The effectiveness and functioning of the internal risk management and control systems are discussed each year with the Audit Committee and the Supervisory Board. Taking into account the aforementioned risks and the measures designed to manage them, and in accordance with the best practice provision I.4.3. of the Dutch Corporate Governance Code, the Executive Board declares that to the best of its knowledge:

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

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

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

- the financial statements give a true and fair view of the assets, liabilities, financial position and profit of TKH and the companies included in the consolidation;
- the management report gives a true and fair view of the situation on 31 December 2018, the state of affairs at TKH and its affiliated companies during 2018, the details of which are presented in the financial statements, and that the management report describes the fundamental risks facing the company.

Haaksbergen, The Netherlands, 4 March 2019

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

THE TKH SHARE

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

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

OPTIONS ON SHARES

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

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

TKH'S SHARE STRUCTURE

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

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

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

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

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

KEY FIGURES PER (DEPOSITARY RECEIPTS OF) ORDINARY SHARES

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

DISCLOSURE OF OWNERSHIP AND EQUITY INTERESTS

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

Mandatory Disclosing Party	Interest	Date of Last Disclosure
Allianz Global Investors GmbH	10.01%	15-09-2017
ASR Nederland NV	5.11%	06-10-2008
Kempen Oranje Participaties NV	3.77%	04-04-2011
Lucerne Capital Management, LLC	3.05%	05-07-2016
Navitas BV	5.75%	01-11-2006
NN Group NV	3.05%	17-08-2018
Teslin Participaties Coöperatief U.A.	5.01%	06-07-2017

DIVIDEND POLICY

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

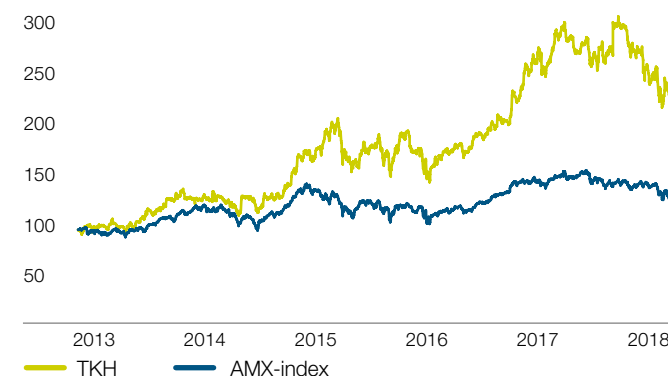
SHARE ISSUES

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

PURCHASE OF OWN SHARES

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

PRICE INDEX TKH / AMX-index



EMPLOYEE STOCK OPTION AND SHARE PURCHASE SCHEMES

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

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

PREVENTION OF INSIDER TRADING

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

INVESTOR RELATIONS POLICY

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

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

INVESTOR RELATIONS

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

More information is available about TKH and its subsidiaries on its website at www.tkhgroup.com or through the Company Secretary, Mrs. R. Dieperink MBA.

KEY DATES

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



EFFICIENT OPTICAL FIBRE DRAWING SPEEDS

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

STICHTING ADMINISTRATIEKANTOOR TKH GROUP

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

EXECUTIVE COMMITTEE OF STICHTING ADMINISTRATIEKANTOOR TKH GROUP

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

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

The total nominal value of the ordinary shares of TKH Group N.V. held in administration amounted to € 10,670,379.50 on 31 December 2018, in exchange for which 42,681,518 depositary receipts of shares¹ with a nominal value of € 0.25 each have been issued.

The objective of Stichting Administratiekantoor TKH Group (Stichting Administratiekantoor) is to acquire and administer registered shares in the public limited company TKH Group N.V. which has its seat in Haaksbergen and to hold them for management in exchange for issuing exchangeable bearer depositary receipts of shares. Stichting Administratiekantoor must exercise the rights attached to the shares in such a way that the interests of the company and its associated businesses and all its stakeholders are protected as well as possible. Hollandsch Administratiekantoor B.V. in Amsterdam was the administrator of Stichting Administratiekantoor. On 10 September 2018 Hollandsch Administratiekantoor B.V. merged with SGG Financial Services B.V. and the administration was continued by SGG Financial Services B.V. from that date.

MEETINGS OF THE EXECUTIVE COMMITTEE

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

depositary receipts of shares were once again discussed, also with specific mention of Stichting Administratiekantoor's legal authority not to grant proxies or revoke a particular proxy under certain situations prescribed by law. In this respect, it was determined once again that the law – in this case Section 118(a) of Book 2 of the Netherlands Civil Code – prevails over the relevant provisions of the Code. The Executive Committee of Stichting Administratiekantoor once more emphasized that holders of depositary receipts of shares are granted a proxy to vote in their own right and at their own discretion in a meeting of shareholders, but that the Executive Committee will be entitled to limit, preclude or revoke that proxy under certain circumstances prescribed by law. Should a situation arise in which, by law, a proxy does not have to be furnished or a previously issued proxy can be revoked, then the Executive Committee of Stichting Administratiekantoor, acting with circumspection, will invoke its authority to deny the proxy or revoke a proxy that has already been granted.

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

At the 2018 General Meeting of Shareholders the holders of depositary receipts of shares in the capital of the company were allowed to vote independently in respect of the shares corresponding with their depositary receipts and subject to the relevant statutory provisions. At the meeting, 99.7% of

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

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

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

SCHEDULE OF RETIREMENT

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

REMUNERATION

The remuneration of Stichting Administratiekantoor's independent Executive Committee members was most recently amended on 1 January 2015. The annual remuneration for the chairman is € 12,500 and € 10,000 for a member of the Committee (both excluding VAT). Additional

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

IN MEMORIAM

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

CONTACT DETAILS

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

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

STATEMENT OF INDEPENDENCE

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

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

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

POSITIONS MEMBERS OF THE EXECUTIVE COMMITTEE

The members of the Executive Committee hold the following positions:

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

- 2012 First appointment
- 2020 Term limit

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

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

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

- 2015 First appointment
- 2019 Term limit

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

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

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

- 2017 First appointment
- 2021 Term limit

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

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

STICHTING CONTINUÏTEIT TKH

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

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

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

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

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

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

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

EXECUTIVE COMMITTEE OF STICHTING CONTINUÏTEIT TKH

The Executive Committee of the Stichting Continuïteit consists of:

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

STATEMENT OF INDEPENDENCE

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

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

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

SMART TECHNOLOGIES

THE HEART OF OUR INNOVATIONS



SMART TECHNOLOGIES

THE HEART OF OUR INNOVATIONS

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

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

THE ROLE OF SMART TECHNOLOGY

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

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



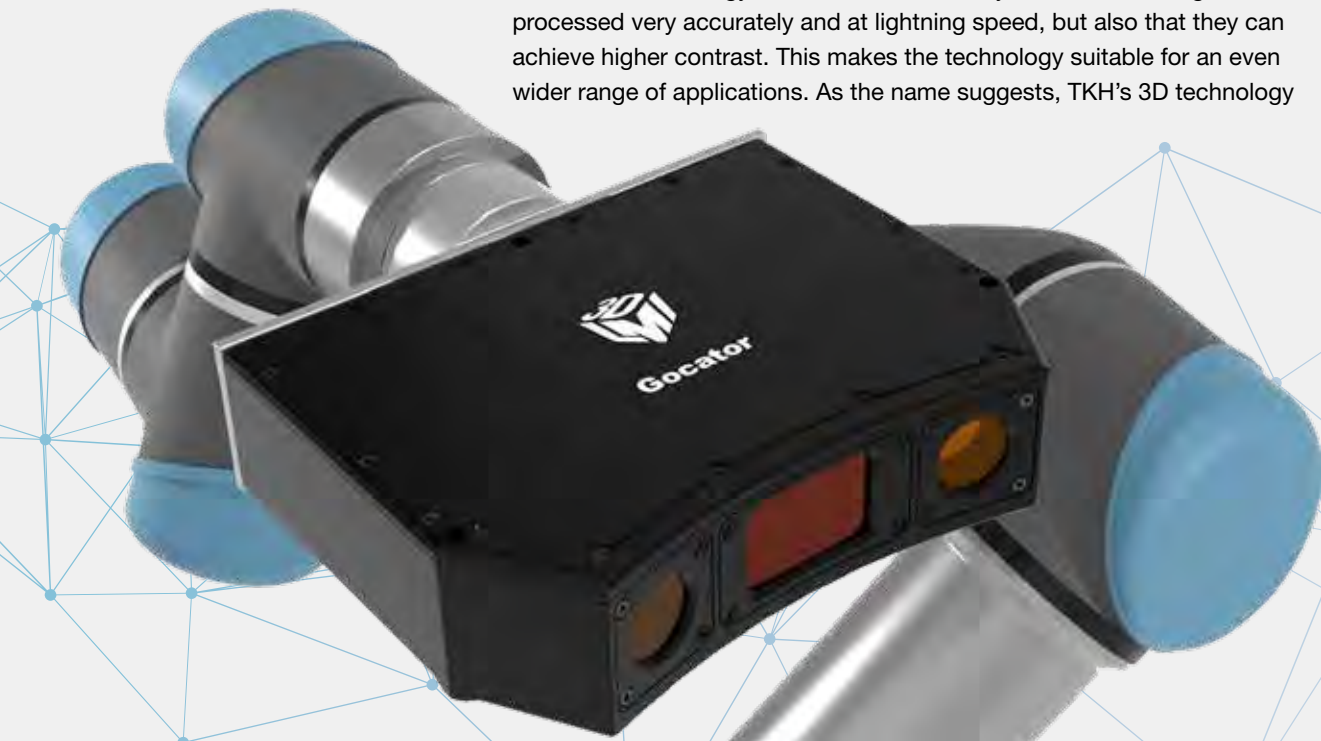
VISION & SECURITY

Vision technology consists of 2D and 3D camera sensor technology and 3D laser technology in combination with the digital processing of visual information to produce usable images or information for interpretation by people and/or machines. Amongst other things, vision technology is employed for inspections, and quality, product and process control, and within TKH it plays an important role in medical solutions, industrial automation and in scientific research. Our security technology makes it possible to control and monitor urban environments in relation to safety, comfort and efficiency, and includes alarms and mission critical communication, access, record-keeping and evacuation systems.

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

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

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





TKH CONTINUES TO SET THE PACE IN THE PARKING MARKET

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

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

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

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

M4-smart sensor parking technology

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





CCTV SYSTEM FOR INTELLIGENT SUPPORT ON DREDGING VESSELS

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

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

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

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

Explosion Proof Solutions

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





FRONTRUNNERS IN THE DEMANDING INSPECTION PROCESS FOR ADDITIVE MANUFACTURING

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

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

machine vision technology for monitoring and controlling the laser process.

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

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

Selective laser melting

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



SMART CUSTOMIZED VIDEO SURVEILLANCE IN TUNNELS

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

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

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

VDG Sense

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





UNRIVALLED ENDOSCOPY SOLUTION THANKS TO BUNDLED TECHNOLOGY POWER

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

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

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

HDselect

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

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

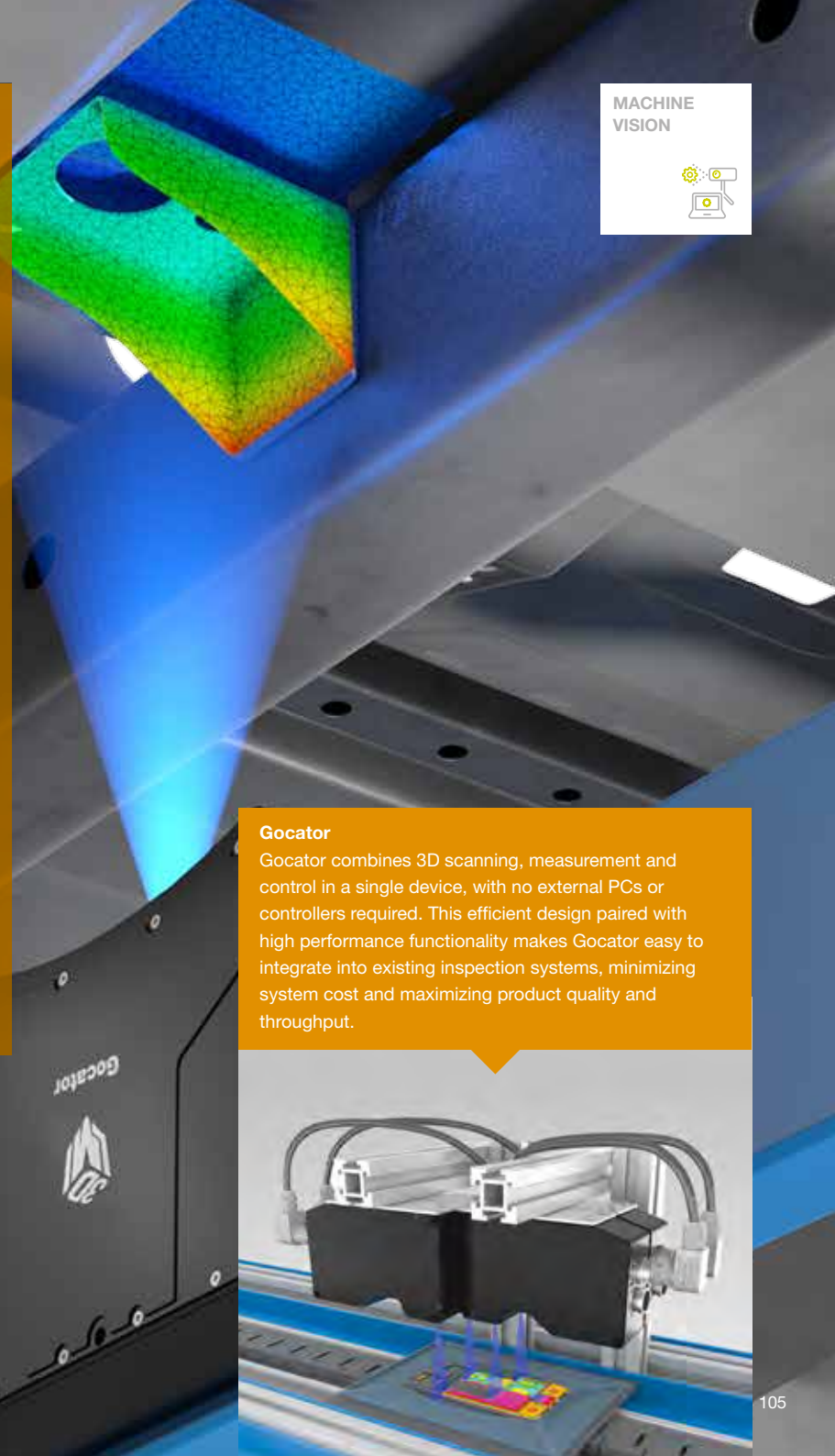
Factory automation is advancing in leaps and bounds. Manufacturers are faced with a constant growing pressure to produce more goods, while consuming fewer raw materials and less energy, compounded by an urgent need to remain competitive in today's rapidly changing world. With high-performance technology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

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

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

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

MACHINE VISION



Gocator

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



MISSION CRITICAL COMMUNICATION

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

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

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

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



SMART INTERCOM SYSTEMS FOR MEANINGFUL SECURITY

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

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

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



'Concerto' intercom technology

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





VIEDOME AT THE FOREFRONT OF THE NECESSARY TRANSFORMATION IN HEALTHCARE

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

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

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

NightWatch

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





CRITICAL INFRASTRUCTURE SECURITY WITH ASSET & SITE MANAGEMENT SOLUTION

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

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

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

Asset & Site Management

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



PARKING MANAGEMENT FOR THE FUTURE WITH FLINQ FORESIGHT

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

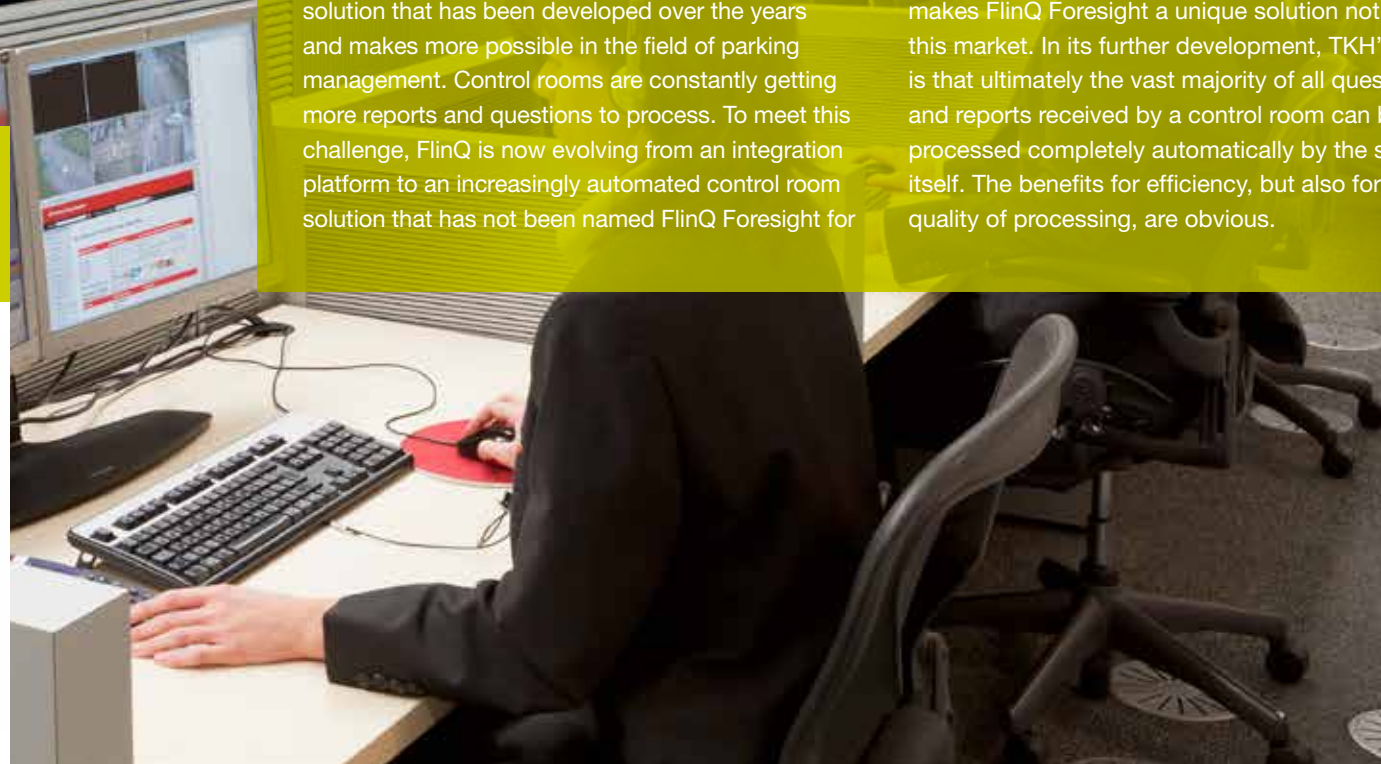
A parking garage may contain many different systems, such as cameras, intercoms and equipment for parking guidance, access control and intrusion detection. TKH has long been able to combine control and monitoring of these various systems and display them on one dashboard in the control room in order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

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

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

FlinQ

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



GROUND-BREAKING INTERCOM SOLUTIONS FOR SUPER YACHTS

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

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

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

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



Mission Critical Communication for super yachts

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



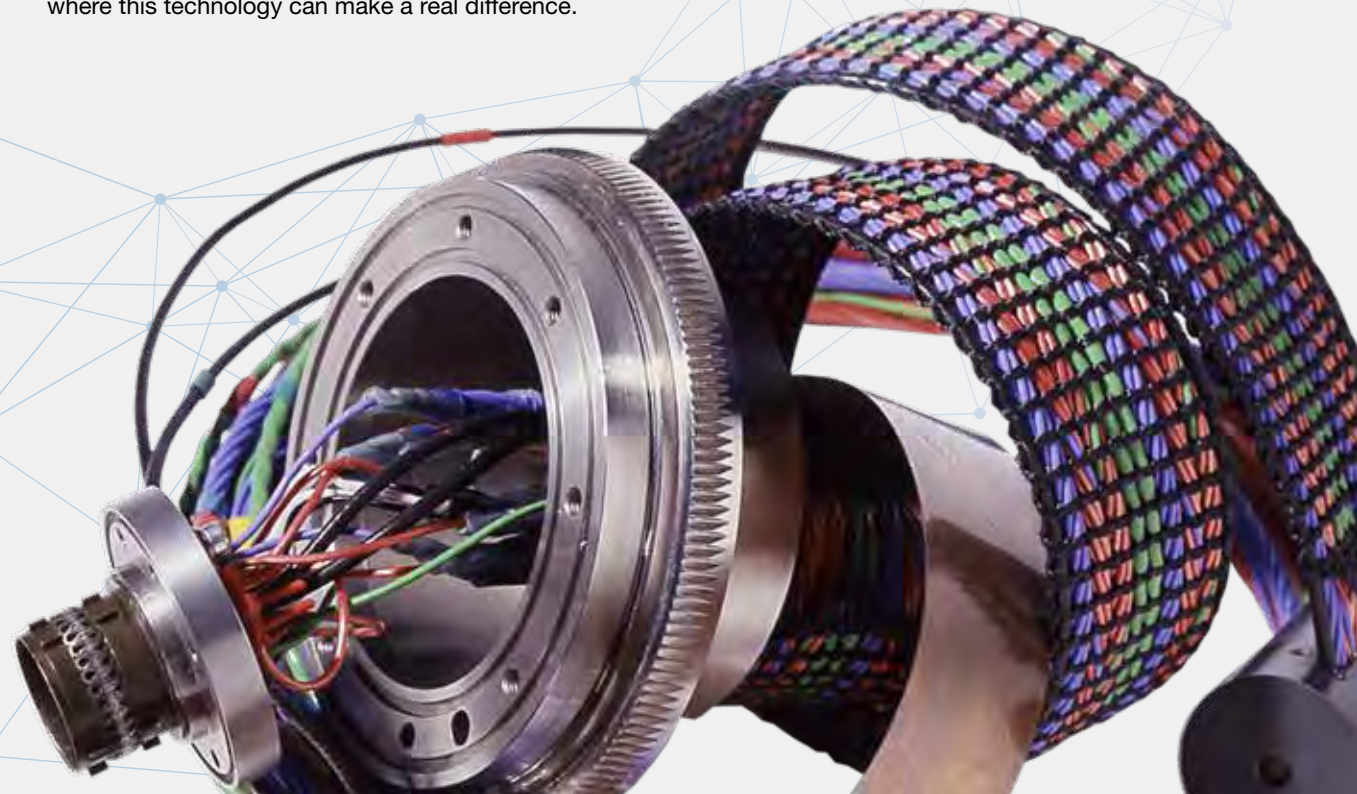
CONNECTIVITY

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

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

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

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



SUBSEA CABLE SYSTEMS UNIQUE IN THE MARKET

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

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

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



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





MINUSCULE IN SIZE BUT WITH EXTREMELY HIGH-QUALITY APPLICATIONS

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

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

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

Miniaturized specialty cables

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





ACE PIONEERING FOR FIBRE OPTIC NETWORKS

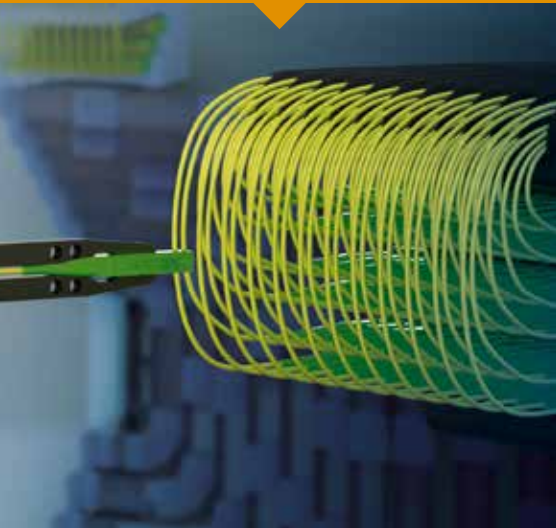
5G is on the way, at a time when much more will be demanded from fibre optic networks. Various applications of the Internet of Things (IoT) require a very high reliability and low response times. As the recognized party in the development and supply of these networks, TKH is taking the lead in this sector.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

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

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

Semi-Automated Optical Distribution Frame (SAODF)

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





REVOLUTIONARY RUNWAY LIGHTING

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

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

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

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

Apollo Site management for CEDD AGL

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

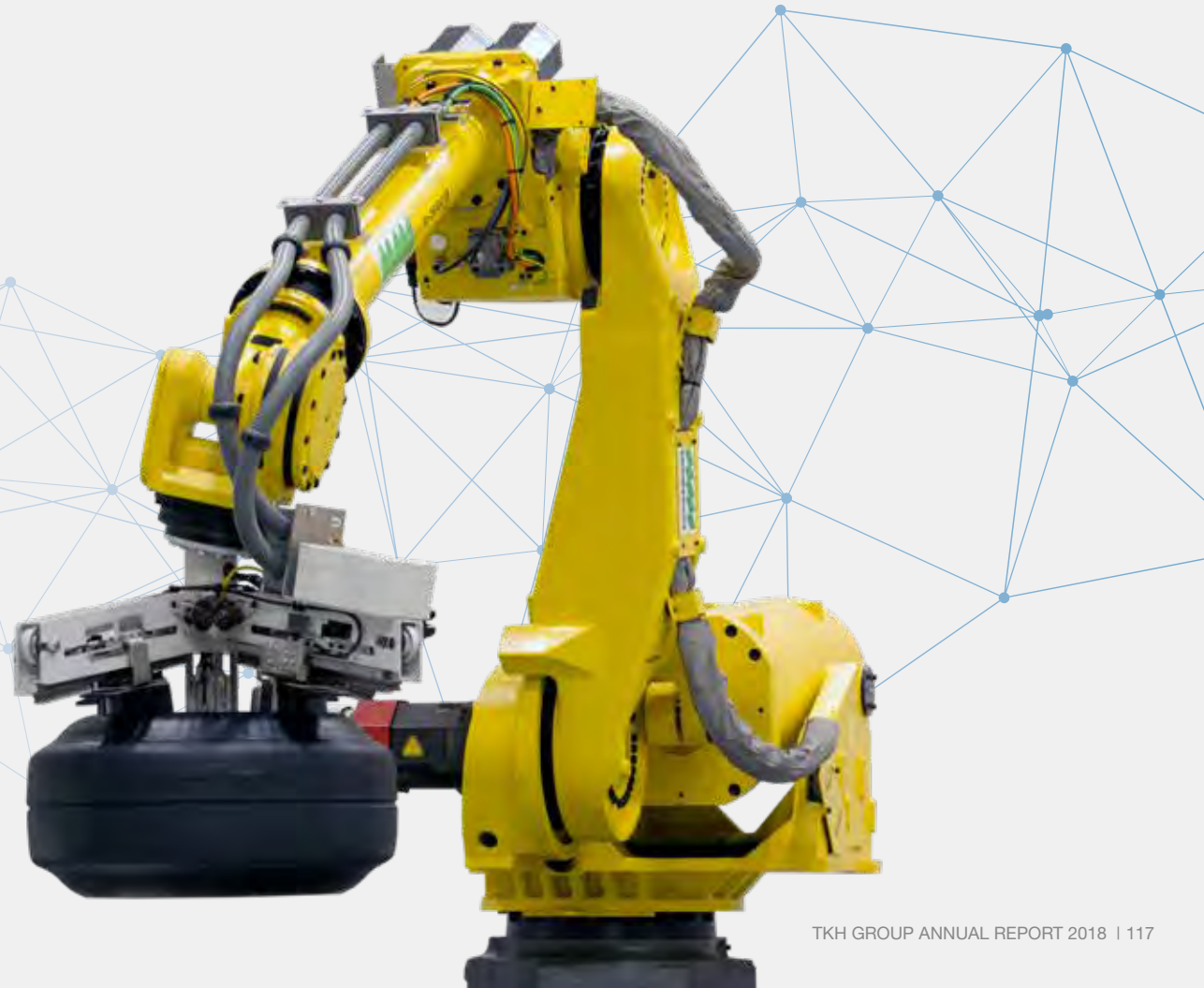


SMART MANUFACTURING

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

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

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





UNEQUALLED BREAKER PRODUCTION FLEXIBILITY

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

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

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

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

EDGIQ belt cutter

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

SMART VISION AND MONITORING SYSTEM FOR TODAY'S TIRE MANUFACTURERS

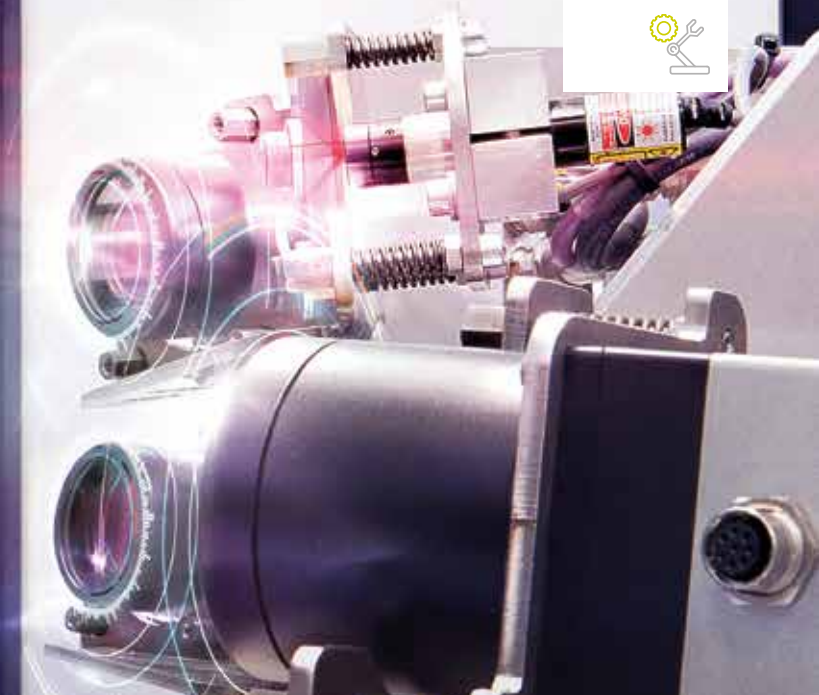
The production of tires is not only a highly complex process, it also requires speed and flexibility. Consequently, optimizing the automation processes in the tire production industry has become quite a challenge. As successful market leader and innovator in the tire industry, the principles of Industry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

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

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

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

TIRE BUILDING
INDUSTRY



PIXXEL

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





SMART MANUFACTURING IN THE HEALTHCARE MARKET

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

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

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

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

INDIVION

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

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CONSOLIDATED STATEMENT OF PROFIT AND LOSS

In thousands of euros	Notes	2018	2017 ¹
Total turnover	23	1,630,826	1,484,801
Raw materials, consumables, trade products and subcontracted work		889,603	816,460
Personnel expenses	24	380,770	353,791
Other operating expenses	26	147,961	146,637
Depreciation	27	27,908	24,774
Amortization	28	40,313	36,466
Impairments	29	1,543	1,754
Total operating expenses		1,488,098	1,379,882
Operating result		142,728	104,919
Financial income	31	1,410	1,459
Financial expenses	31	-7,843	-8,326
Exchange differences	31	-291	-1,190
Share in result of associates		1,873	941
Result from available-for-sale financial assets			6,311
Fair value changes of financial liability for squeeze-out, earn-out and put options of shareholders of non-controlling interests	15	520	3,847
Result before tax		138,397	107,961
Tax on profit	32	29,661	20,431
Net result		108,736	87,530
Attributable to:			
Shareholders of the company		108,551	86,302
Non-controlling interests		185	1,228
		108,736	87,530
Earnings per share attributable to shareholders	33		
Ordinary earnings per share (in €)		2.58	2.05
Diluted earnings per share (in €)		2.57	2.04
Ordinary earnings per share before amortization and one-off income and expenses (in €) ²		2.88	2.27
Ordinary earnings per share before amortization (in €) ²		2.87	2.32

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

² Non IFRS compulsory disclosure.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of euros	Notes	2018	2017 ¹
Net result		108,736	87,530
Items that may be reclassified subsequently to profit or loss (net of tax)			
Currency translation differences		-457	-11,926
Currency translation differences in other associates		-149	-490
Effective part of changes in fair value of cash flow hedges (after tax) ²		-5,903	5,034
Revaluation of available-for-sale financial assets	7		795
Reclassification to the profit and loss account of available-for-sale financial assets due to disposal	7		-5,837
		-6,509	-12,424
Items that will not be reclassified subsequently to profit or loss (net of tax)			
Actuarial gains/(losses) ²	17	237	22
		237	22
Other comprehensive income (net of tax)		-6,272	-12,402
Comprehensive income for the period (net of tax)		102,464	75,128
Attributable to:			
Shareholders of the company		102,307	73,938
Non-controlling interests		157	1,190
Total comprehensive income for the period (net of tax)		102,464	75,128

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

² For the impact of taxes is referred to note 32.

CONSOLIDATED BALANCE SHEET

In thousands of euros	Notes	31-12-2018	31-12-2017 ¹	In thousands of euros	Notes	31-12-2018	31-12-2017 ¹
ASSETS				EQUITY AND LIABILITIES			
Non-current assets				Group Equity			
Intangible non-current assets	3	544,098	392,152	Shareholders' equity	12	646,459	594,357
Tangible non-current assets	4	245,392	229,212	Non-controlling interests	13	1,190	8,440
Investment property	5	251	251	Total group equity		647,649	602,797
Other associates	6	12,047	10,566	Non-current liabilities			
Receivables	9	2,007	2,960	Non-current liabilities	18	238,537	187,335
Deferred tax assets	16	17,104	14,234	Deferred tax liabilities	16	60,398	43,388
Total non-current assets		820,899	649,375	Retirement benefit obligation	17	7,984	8,172
Current assets				Financial liabilities	15	588	2,890
Inventories	8	254,963	218,805	Provisions	14	5,217	4,955
Receivables	9	223,473	217,198	Total non-current liabilities		312,724	246,740
Contract assets	10	140,135	94,606	Current liabilities			
Contract costs	10	3,555	12,282	Borrowings ²	19	170,569	57,350
Current income tax		1,081	2,805	Trade payables and other payables	20	314,613	286,348
Cash and cash equivalents ²	11	83,180	87,719	Contract liabilities	10	57,032	60,267
Total current assets		706,387	633,415	Current income tax liabilities		6,924	5,762
				Financial liabilities	15	4,831	11,781
				Provisions	14	12,944	11,745
				Total current liabilities		566,913	433,253
Total assets		1,527,286	1,282,790	Total equity and liabilities		1,527,286	1,282,790

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

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

CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

In thousands of euros	Share capital	Share premium	Legal reserve	Revaluation reserve	Fair value reserve of financial assets at FVOCI	Translation reserve	Cashflow hedge reserve	Retained earnings	Unappropriated profit	Total shareholders' equity	Non-controlling interests	Total group equity
Balance at 1 January 2017 before IFRS 15 restatement	10,709	85,021	43,213	415	5,042	21,603	-2,593	324,883	85,707	574,000	8,520	582,520
IFRS 15 Restatement								1,335		1,335		1,335
Balance at 1 January 2017 after IFRS 15 restatement	10,709	85,021	43,213	415	5,042	21,603	-2,593	326,218	85,707	575,335	8,520	583,855
Net result									86,302	86,302	1,228	87,530
Reclassification to the profit and loss account of available-for-sale financial assets due to disposal					-5,837					-5,837		-5,837
Total other comprehensive income					795	-12,378	5,034	22		-6,527	-38	-6,565
Total comprehensive income	0	0	0	0	-5,042	-12,378	5,034	22	86,302	73,938	1,190	75,128
Appropriation profit last year								85,707	-85,707	0		0
Dividends								-46,237		-46,237		-46,237
Dividends to shareholders of non-controlling interests								-527		-527	-1,284	-1,811
Acquisition of non-controlling interests								-12		-12	14	2
Reversal of revaluation				-227				227		0		0
Share and option schemes								2,315		2,315		2,315
Purchased shares for share and option schemes								-17,496		-17,496		-17,496
Sold shares for share and option schemes								7,041		7,041		7,041
Change in legal reserve for participations			942					-942		0		0
Capitalized development costs			10,978					-10,978		0		0
Balance at 31 December 2017	10,709	85,021	55,133	188	0	9,225	2,441	345,338	86,302	594,357	8,440	602,797
IFRS 9 restatement								-812		-812	-3	-815
Balance at 1 January 2018 after IFRS 9 restatement	10,709	85,021	55,133	188	0	9,225	2,441	344,526	86,302	593,545	8,437	601,982
Net result									108,551	108,551	185	108,736
Total other comprehensive income						-578	-5,903	237		-6,244	-28	-6,272
Total comprehensive income	0	0	0	0	0	-578	-5,903	237	108,551	102,307	157	102,464
Appropriation profit last year								86,302	-86,302	0		0
Dividends								-50,435		-50,435	-58	-50,493
Dividends to shareholders of non-controlling interests								-1,104		-1,104		-1,104
Acquisition of non-controlling interests								7,346		7,346	-7,346	0
Share and option schemes								2,303		2,303		2,303
Purchased shares for share and option schemes								-13,482		-13,482		-13,482
Sold shares for share and option schemes								5,979		5,979		5,979
Change in legal reserve for participations			-605					605		0		0
Capitalized development costs			9,595					-9,595		0		0
Reclassifications						-310		310		0		0
Balance at 31 December 2018	10,709	85,021	64,123	188	0	8,337	-3,462	372,992	108,551	646,459	1,190	647,649

CONSOLIDATED CASH FLOW STATEMENT

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

In thousands of euros	Notes	2018	2017 ¹
Cash flow from financing activities			
Dividends paid		-51,597	-48,048
Settlement of financial liabilities regarding put options of non-controlling interests, earn-out and squeeze-out		-251	-4,664
Acquisition of non-controlling interests		-9,000	316
Purchased shares for share and option schemes		-13,482	-17,496
Sold shares for share and option schemes		5,979	7,041
Proceeds from long-term debts		52,745	
Repayments on long-term debts			-27,158
(Repayments) / proceeds from other long-term debts		-1,779	380
Change in borrowings	19	99,642	-11,537
Net cash flow from financing activities (C)		82,257	-101,166
Net increase/(decrease) in cash and cash equivalents (A+B+C)		18,748	-11,919
Exchange differences		-3,556	-1,072
Change in cash and cash equivalents		15,192	-12,991
Cash and cash equivalents at 1 January		45,713	58,704
Cash and cash equivalents at 31 December	11	60,905	45,713

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 ACCOUNTING PRINCIPLES

General

The financial statements in English is a translation of the official Dutch version. In the event of differences and/or inconsistencies between the English version of the financial statements 2018 and the official Dutch financial statements 2018, the latter will take precedence.

The consolidated financial statements of TKH Group N.V. (hereafter 'TKH') have been drawn up in accordance with the International Financial Reporting Standards ('IFRS') adopted by the European Commission and applicable on the accounting period that begins on 1 January 2018. The company financial statements are part of the financial statements of TKH. The financial statements have been prepared based on the historical cost basis, except for the valuation at fair value of investment property, available-for-sale financial assets, derivatives and share-based payments. All transactions in financial instruments are recognized at transaction date. To the extent that alternative performance measures are used these are explained in the glossary, which is included in the 'Other information'.

New accounting principles and interpretations

As from 1 January 2018 the following amendments of standards and new interpretations are effective:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments to IAS 40: Transfers of Investment Property
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4: Applying IFRS 9 Financial instruments with IFRS 4 insurance contracts
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Annual Improvements to IFRS Standards 2014-2016 Cycle

The effect of IFRS 9 and 15 on the financial statements is further explained hereafter. The adoption of the other amendments and improvements have no material impact on the financial statements.

TKH has not opted for an early adoption of the following new standards, amendments to standards and new IFRIC interpretations, which are mandatory for accounting periods that begin on or after 1 January 2019:

- IFRS 16 Leases ¹
- IFRS 17 Insurance contracts ^{2,3}

- IFRIC 23 Uncertainty over Income Tax Treatments ¹
- Amendments to IAS 1 and IAS 8: Definition of Material ^{3,4}
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement ¹
- Amendments to IAS 28: Long-term interests in associates and joint ventures ¹
- Amendments to IFRS 3: Business Combinations ^{3,4}
- Amendments to IFRS 9: Prepayment features with negative compensation ¹
- Amendments to References to the Conceptual Framework in IFRS Standards ⁴
- Annual Improvements to IFRS Standards 2015-2017 Cycle ¹

The expected impact of IFRS 16 is further disclosed hereafter. TKH expects that the adoption of the other new standards and amendments in future periods will not have a material impact on its financial statements.

IFRS 9 Financial Instruments replaces *IAS 39 Financial Instruments*: Recognition and Measurement.

The adoption of IFRS 9 has an impact on the valuation and presentation of financial instruments depending on their contractual cash flows and the business model under which they are held. Due to the replacement of the 'incurred loss model' by a so called 'expected credit loss model' the allowance for doubtful debts has increased. TKH applies a risk matrix, using historical credit risk experience (adjusted if necessary) to estimate the expected credit risk on trade and other receivables and contract assets. This approach has not led to a material effect on the credit loss allowance.

In addition, TKH has provided loans to start-up technology companies, which were valued under IAS 39 at amortized cost using the effective interest method. The classification of a financial asset at initial recognition depends, under IFRS 9, on the contractual cash flow characteristics and the business model of TKH to manage them. A financial asset can only be classified and valued at amortized cost or fair value through OCI if it generates cash flows that consist solely of repayment and interest ('SPPI') on the outstanding principal. The cash flows consist not only of repayment and interest on the outstanding principal, but also a compensation that is linked to the performance of the borrower. Because of this compensation and the negative equity of the borrower, the loans qualify as valued at fair value with changes in value through the statement of profit and loss. The fair value of the loans is calculated under IFRS 9 based on contractual cash flows discounted at the estimated market interest rate. This resulted in a € 1.0 million lower book value.

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

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

¹ Effective for accounting periods beginning on or after 1 January 2019.

² Effective for accounting periods beginning on or after 1 January 2021.

³ Not yet endorsed by the European Union.

⁴ Effective for accounting periods beginning on or after 1 January 2020.

In implementing IFRS 9, TKH has applied the following required or elected reclassifications:

In thousands of euros	IAS 39 31-12-2017	IFRS 9 measurement category		
		Amortized costs	Fair value through OCI	Fair value through P&L
Trade accounts receivable	188,208	188,193		
Derivatives	4,439		4,294	145
Receivables from related parties	729	729		
Other short-term receivables	24,184	14,872		8,266
Long-term receivables	2,960	2,960		
	220,520	206,754	4,294	8,411

IFRS 15 Revenue from Contracts with Customers replaces the standards IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. IFRS 15 requires the identification of separate performance obligations (such as sales and maintenance) and the allocation of the transaction price to the performance obligations based on individual sales prices. In addition, a new principle regarding the recognition of revenue over a period of time has been introduced. This has an impact on the timing and the amount of the revenues that are accounted for. Furthermore, there are, especially in the case of long-term contracts, several new disclosures required, such as the obligation to specify the turnover by nature and origin, as well as numerous reconciliations for assets and liabilities arising from contracts.

The main impact for TKH concerns the following aspects from IFRS 15:

- Certain products and systems are so customer specific that an alternative use is not possible for other customers. At the same time TKH has an enforceable right to payment for the performance completed to-date. As a result of this, the turnover is no longer to be accounted for at-a-point in time, but over time. This change mainly concerns customer-specific cables, cablesystems and machine vision systems.
- Under IFRS 15, optional payment discounts are considered to be part of the transaction price. This is currently accounted for at the moment that the customer uses this discount. However, this discount must be recognized at an earlier stage, namely when the turnover is recognized.
- Under IFRS 15, indirect costs, such as administration and management costs, can not be a part of the contract assets, unless explicitly stated in the contract that it can be charged. Also, the incremental commission costs as a result of obtaining a contract are classified separately as contract costs and amortized over the expected contract duration. In addition, waste, occupancy losses and inefficiencies as far as they are abnormal, must be recognized as period costs, while these costs were previously allocated to projects. These adjustments result in a revision of the project costs and therefore to a lower progress percentage and thus a deferred profit recognition.
- The provision for expected losses on contracts with customers, for which contracts the turnover is recognized over a period, is no longer netted against the contract assets, but is reclassified to other provisions for onerous contracts.

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

The application of IFRS 15 has no material impact on equity as at 31 December 2017 and the results for 2017. The impact of IFRS 15 on the consolidated balance sheet as at 1 January 2017 is as follows:

In thousands of euros	1-1-2017	IFRS 15 restatement	Restated balance sheet 1-1-2017
Non-current assets			
Deferred tax assets	20,768	604	21,372
Current assets			
Inventories	206,949	-13,346	193,603
Receivables	192,967	-156	192,811
Amounts due from customers under construction contracts	100,568	-100,568	0
Contract costs		10,866	10,866
Contract assets		110,620	110,620
Group Equity			
Total group equity	582,521	1,335	583,856
Non-current liabilities			
Deferred tax liabilities	52,660	1,442	54,102
Current liabilities			
Amounts due to customers under construction contracts	45,794	-45,794	0
Contract liabilities		45,794	45,794
Provisions	7,302	5,243	12,545

The impact of IFRS 15 on the consolidated statement of profit and loss 2017 is as follows:

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

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

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

IFRS 16 Leases provides for a lease accounting model whereby the lessee has to include the assets and liabilities in respect of lease agreements on the balance sheet. The application of IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. TKH has not opted for an earlier application of IFRS 16. At initial adoption, TKH will opt for a 'limited retrospective method', whereby the comparative figures will not be adjusted and the cumulative effect will be recognized in equity as at 1 January 2019. The lease liability is calculated based on the present value of the remaining payments after the first application date using the incremental borrowing rate on 1 January 2019. At first recognition of the lease asset, TKH will choose the option to equate the initial value of the lease asset to the amount of the lease liabilities. TKH will also apply the exemption for leases of assets with a low value and for leases with a term shorter than 12 months. The service costs for lease objects will be recognized separately and will therefore not be valued in non-current assets ('right-of-use assets') and lease obligations. The right-of-use assets and lease liabilities are expected to increase by approximately € 89 million and € 92 million respectively. The presentation in the statement of profit and loss will also change because depreciation and interest expenses will replace the recorded costs for operating leases under other operating expenses. However, the impact on the net result is not expected to be material. It has been

agreed with the banking group that the amendments based on IFRS 16 will have no impact on the bank covenant during the term of the current financing.

Consolidation

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

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

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

Segmentation

The information is segmented into the operating segments Telecom, Building and Industrial Solutions. For these segments, discrete financial information is available that the Executive Board, the highest operational decision-makers, evaluates regularly. The Executive Board decides on the allocation of resources and reviews the performance of the three segments (Telecom, Building and Industrial Solutions). These performances are reviewed and reported to the level of operating result. The segments are based on the product/market combinations in which TKH companies operate. The accounting principles that are applied to these consolidated financial statements also apply to the business segments. The transaction prices for deliveries between segments are determined on a commercial basis. The results, assets and liabilities of a segment include both items directly linked to that segment as items that can reasonably and consistently be allocated to that segment. Besides the information about the operating segments, selective information by geographic region is disclosed.

Foreign currencies

The consolidated financial statements are presented in euros, which is also the functional currency of the holding. Transactions in foreign currencies are translated into the respective functional currencies of

the entities of the group, at the prevailing exchange rate at transaction date. In foreign currency denominated monetary assets and liabilities at the balance sheet date are translated at the exchange rate prevailing at that date. The result of the conversion occurring exchange differences on monetary items, are recorded in the statement of profit and loss.

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

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date at fair value and the amount of any non-controlling interests in the acquiree, in exchange for control of the acquiree. Acquisition related costs are recognized in the statement of profit and loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

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

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

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

When a non-controlling shareholder has an unconditional right to sell its shares to TKH according to a contractual agreed formula ('put option'), a liability is recognized by TKH for the shares to be

purchased. The liability is recognized at the present value of the estimated future cash outflow. A legal reserve is accounted for the interest in the equity of the subsidiary of which the economic ownership has been obtained, but not yet the legal ownership. Adjustments after the first recognition on the value of the financial liability for put options and earn-out payments are recognized directly into the statement of profit and loss.

Intangible non-current assets

Goodwill

Goodwill is capitalized and allocated to cash-generating units. Goodwill is not amortized. Instead, it is tested at least annually for impairment. Any impairment loss is recognized in the statement of profit and loss as soon as it occurs and is not reversed in subsequent periods. On sale of a subsidiary, the goodwill is included in the determination of the profit or loss on a disposal.

Other intangible non-current assets

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

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

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

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

Tangible non-current assets

Lease

A lease is classified as a financial lease if the terms of the lease transfer practically all the risks and rewards of ownership of an asset to TKH. All other lease agreements are classified as operating leases. Assets acquired as financial lease are valued at the lower of the fair value and the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Payments made under an operating lease are recognized in the statement of profit and loss in the period to which they relate. Benefits arising from entering into an operating lease are spread over the term of the lease.

Property, plant and equipment

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

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

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

Impairment

At least annually, the company reviews its tangible and intangible non-current assets to determine whether there are indications that those assets have suffered an impairment loss. If there is any such indication the recoverable value of the asset is estimated to determine the extent of the impairment loss. If the asset does not generate cash itself, the company determines the recoverable value of the smallest cash-generating unit to which the asset belongs. The recoverable amount is the fair value less cost to sell or the value in use, whichever is higher. The value in use is based on the estimated future cash flows that are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is less than its carrying amount, the asset is recognized at the recoverable amount. An impairment loss is recognized immediately in the statement of profit and loss. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, with the exception of goodwill, but never higher than the carrying amount that would have been determined when no impairment loss has been recognized. The increase is recognized immediately in the statement of profit and loss.

Investment property

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

Associates

The associates in which TKH has significant influence in the financial and operating policy decisions, but no control, are valued according to the equity method. Under the equity method, the share in the profit or loss of the associate is recognized in the statement of profit and loss, but not lower than nil, unless TKH is obliged to partially or completely compensate losses. The share in the associate is determined based on TKH's share in the net assets of the associate, including the paid goodwill at acquisition and

less any impairment loss. Dividend from associates is recognized when the shareholders' right to receive payments has been established. Receipt of dividends reduces investments in associates.

Inventories

Inventories are stated at the lower of cost and net realizable value. The net realizable value is the estimated sales price in normal course of business less estimated cost of completion and selling expenses. The cost of raw materials and consumables is based on the average purchase price and cost incurred in bringing the inventories to their present location and condition. The cost of semi-manufactured and finished product comprises the direct materials and direct labor costs as well as a surcharge for the attributable production costs.

Contract assets

A contract asset is the right to consideration in exchange for products or services transferred to the customer. If TKH performs by transferring products or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract costs

TKH recognizes the incremental costs for obtaining contracts as an expense when the amortization period of the assets, that would otherwise have been recognized, is less than one year. Capitalized contract costs are systematically amortized over the transfer period of the related products or services to the customer.

Contract liabilities

A contract liability is the obligation to transfer products or services to a customer for which TKH has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before products or services are transferred to the customer, a contract liability is recognized. Contract liabilities are recognized as revenue when TKH performs under the contract.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset for an entity and a financial liability or equity instrument for another entity. Financial assets and financial liabilities are recognized in the balance sheet when TKH becomes a party in a contract. Financial assets and financial liabilities are initially recognized at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value with recognition of changes in value in the profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities upon initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets or financial liabilities at fair value with recognition of value changes in the profit and loss are recognized immediately in the profit and loss. An exception to this relates to trade receivables, which are valued at the transaction price determined under IFRS 15.

Financial assets

Financial assets are at initial recognition classified in one of three groups for the subsequent measurement:

- amortized cost,
- fair value with change in value through OCI or
- fair value with change in value through profit or loss.

The classification of a financial asset on initial recognition depends on the contractual cash flow characteristics and the business model of TKH to manage it. A financial asset can only be classified and valued at amortized cost or fair value through OCI if it generates cash flows that consist solely of repayment and interest ('SPPI') on the outstanding principal. This assessment is called the SPPI test and is performed at instrument level. The business model refers to the way in which TKH manages its financial assets to generate cash flows. The business model determines whether cash flows arise from the collection of contractual cash flows, the sale of financial assets or both. Purchases or sales of financial assets that require delivery of assets established by regulation or convention in the market place (regular way trades) are recognized on the trade date, the date that TKH commits to purchase or sell the asset.

For the purpose of the subsequent measurement, financial assets are classified into four categories:

1. Financial assets at amortized cost (debt instruments);
2. Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
3. Financial assets designated as at fair value through OCI without recycling of cumulative gains and losses on derecognition (equity instruments);
4. Financial assets at fair value with recognition of value changes in the statement of profit and loss.

1. Financial assets at amortized cost (debt instruments)

This category is the most relevant to TKH. TKH measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The financial assets at amortized cost mainly comprise trade receivables.

2. Financial assets at fair value through OCI (debt instruments)

TKH measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and;

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss. Debt instruments at fair value through OCI include investments in listed debt instruments. At the balance sheet date, TKH has no debt instruments at fair value through OCI.

3. Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, TKH can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established. Equity instruments designated at fair value through OCI are not subject to impairment assessment. At the balance sheet date, TKH does not hold such equity instruments.

4. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. This group of financial assets is valued at fair value, with the net changes in fair value recognized in the statement of profit and loss. This category includes derivatives that have not been designated as a hedging instrument and loans to start-ups with a performance linked compensation.

A financial asset is primarily derecognized when:

- The rights to receive cash flows from the asset have expired, or;
- TKH has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) TKH has transferred substantially all the risks and rewards of the asset, or (b) TKH has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When TKH has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, TKH continues to recognize the transferred asset to the extent of its continuing involvement. In that case, TKH also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that TKH has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that TKH could be required to repay.

Impairment of financial assets

TKH recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that TKH expects to receive, discounted at an approximation of the original effective interest rate. ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default. A financial asset is written off when there is no reasonable expectation to recover the contractual cash flows.

For trade receivables and contract assets, TKH applies a simplified approach in calculating ECLs. Therefore, TKH does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. TKH has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. A further explanation is included in note 21.

Financial liabilities

Financial liabilities are classified, at initial recognition, as

- financial liabilities at fair value through profit or loss,
- loans and borrowings,
- other payables, or
- derivatives designated as hedging instruments in an effective hedge.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. TKH's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

The measurement of financial liabilities depends on their classification.

Financial liabilities at fair value through profit or loss

This category include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by TKH that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Gains or losses on liabilities held for trading are recognized in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. TKH has no designated financial liabilities at the balance sheet date at fair value with the recognition of changes in value in the statement of profit and loss.

Loans and borrowings

This is the category most relevant to TKH. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. The EIR method is a method for calculating the amortized cost of a financial liability and for allocating interest expenses over the relevant period. The effective interest rate is the rate that discounts the estimated future cash payments (including any fees paid or received that are an integral part of the effective interest rate and transaction costs) over the expected life of the financial liability to the amortized cost of a financial liability. Gains and losses are recognized in the statement of profit and loss when the liabilities are no longer recognized. In addition, the EIR amortization is included in the statement of profit and loss as financing costs.

Other payables

The other current liabilities are initially recognized at fair value and subsequently at amortized cost, which is generally equal to the nominal value

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Derivatives

Derivative financial assets and financial liabilities ('derivatives') are recognized in the balance sheet when TKH concludes a contract for such an instrument. Derivatives are stated at fair value on the contract

date and are then measured at the prevailing fair value at subsequent reporting dates. Changes in the fair value of derivatives that are designated and effective as hedges of future cash flows are recognized directly in the OCI and accounted for as a separate item in equity. The ineffective portion is recognized immediately in the statement of profit and loss. If the cash flow from an existing commitment or an expected future transaction results in the recognition of an asset or liability, at the time the asset or liability is recognized the associated gains or losses on the hedging instrument that had previously been recognized in the OCI are included in the valuation of the asset or the liability. For hedges that do not result in the recognition of an asset or a liability, the gains or losses recognized in the OCI are recognized in the statement of profit and loss in the same period as the underlying hedged transaction is recognized in the statement of profit and loss. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized immediately in the statement of profit and loss. Hedge accounting is discontinued when the hedge instrument expires, is sold, exercised or no longer qualifies for hedging. The cumulative gains or losses on that hedging instrument recognized up to that time in equity are recognized in the statement of profit and loss when the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the cumulative gains or losses recognized in the OCI are transferred to the statement of profit and loss.

Provisions

General

Provisions are recognized when (a) TKH has a present obligation (legal or constructive) as a result of a past event, (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (c) a reliable estimate can be made of the amount of the obligation.

Provisions are recognized based on the expected expenditure required to settle the obligation. Long-term provisions, with the exception of the provision for deferred tax, are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, an increase in the provision as a finance cost is recognized due to the passage of time.

Pensions

Premiums for defined contribution plans are recognized as expense in the period to which they relate. For defined benefit pension plans, the net liability is calculated per scheme by estimating the defined benefit obligation that employees are entitled to in exchange for their services rendered during the financial year and previous years. The defined benefit obligations are discounted. The defined benefit obligations and the costs of the defined benefit plans are calculated according to the 'Projected Unit Credit Method', with actuarial calculations being made at balance sheet date. This method takes into account future salary increases as a result of the career opportunities of employees and general wage developments including inflation adjustment. The discount rate is the yield rate at the balance sheet date on high quality corporate bonds with a term that approaches the term of the obligations of TKH. Actuarial gains and losses are directly accounted for in the OCI, which will not be reclassified subsequently to the statement of profit and loss. If the calculation results in a potential asset, the recognition of the asset is limited to the present value of any economic benefits available in the form of future refunds from the

plans or reduced future pension contributions ('asset ceiling'). This is evaluated per pension scheme. In the calculation of the present value of economic benefits any minimum funding obligations that apply are taken into account. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Net interest on defined benefit obligations are accounted for as interest expense as part of the financial expenses. When pension entitlements are changed under a pension plan, the change in pension entitlements related to past service or the gain or loss on that change is recognized directly in the statement of profit and loss.

Pension costs, including pension costs on past service and the impact of settlements and curtailments are recognized as personnel costs.

Jubilee bonuses

The net liability for jubilee bonuses is the amount of future benefits that relate to services from employees during the financial year or previous periods. The liabilities are discounted to its present value taking into account estimated dismissal chances and salary increases.

Provision warranty obligations

The provision warranty obligations is recognized for the estimated costs that are expected to arise from active warranty obligations in respect of goods and services at balance sheet date. The costs arising from warranty claims are charged against the provision.

Onerous contracts

A loss-making contract is a contract in which the unavoidable costs (i.e., the costs that TKH can not avoid because it has the contract) to meet the obligations under the contract exceed the economic benefits that are expected to be received. The unavoidable costs under a contract reflect the lowest net costs of terminating the contract, the performance of the contract and any compensation or penalties arising from non-compliance. For a loss-making contract with customers, a provision is recognized and valued insofar as the unavoidable costs for completing the contracts are higher than the contract price.

Other provisions

Unless stated otherwise, the other provisions are valued at the nominal value of the expenditure that are estimated to be necessary to settle the respective obligations.

Deferred tax

Deferred tax relates to temporary differences between the value in the financial statements and the value for tax purposes. No deferred tax is recognized for non-deductible goodwill and subsidiaries and associates included in the participation exemption. Deferred tax assets are only recognized to the extent that it is probable that they can be realized. Deferred tax is calculated at the tax rates that are expected to apply when they are settled. Changes in deferred tax are recognized immediately in the statement of profit and loss, with the exception of deferred tax that relates to items that are recognized in the OCI or directly in equity.

Turnover

The turnover includes the net turnover, as well as other revenues. Net turnover is the revenue from products and services delivered to third parties during the year under the deduction of discounts, bonuses and stock returns. Revenue is measured on the basis of the consideration set out in a contract with a customer. Products are regularly sold with volume discounts based on total sales over a period of 12 months. Revenues from these sales are recognized on the basis of the price specified in the contract, after deduction of the estimated volume discounts. Revenue is only recognized to the extent that it is highly probable that a reversal will not take place. A refund liability, included in the other current liabilities, is recognized for expected volume discounts payable to customers in connection with sales made until the end of the reporting period. There is no financing element applicable because the sales take place with a relatively short credit term, which is consistent with market practice.

The turnover of TKH consists of products and services within the business segments Telecom, Building and Industrial Solutions that are delivered to customers as a separate product/service or as a total solution. TKH recognizes revenue when control of a product or service is transferred to a customer. In the following overview the revenue recognition per segment is further elaborated.

TELECOM SOLUTIONS

Telecom Solutions develops, produces and supplies products and systems for basic outdoor infrastructure for telecom and CATV networks up to indoor home networking applications. Approximately 40% of the portfolio consists of optical fibre and copper cable. The remaining 60% consists of components and systems in the field of connectivity and peripherals that are mainly used in the nodes of the network.

Virtually all revenues in Telecom Solutions is accounted for when the products are transferred to the customer in accordance with the delivery conditions of the sales contract and there is no unfulfilled obligation that could affect the customer's acceptance. A receivable is recognized at that moment because the consideration has become unconditional and only the passage of time is required before the payment is due.

BUILDING SOLUTIONS

Building Solutions develops, produces and supplies products and systems for security, communication and connectivity applications within and around buildings, in medical applications as well as for inspection, quality, product and process control. In addition, products and services are supplied for installations within buildings, intelligent video, mission critical communication, evacuation, access (control) and registration systems.

A large part of the revenue within Building Solutions is recognized in the same way as Telecom Solutions, with the exception of the following products and services:

- **Maintenance and licenses:** Maintenance and licenses are part of the transaction price for a number of products and systems. These relate to activities that may have to be carried out during a certain period after sale. This period can thereafter be extended by the customer at then applicable prices. Maintenance and licenses are considered as a separate service. A part of the transaction price is therefore allocated to these services based on their stand-alone selling price. The transaction price allocated to these services is recognized as a contract liability at the time of the initial sale transaction and is subsequently recognized as revenue on a straight-line basis over the contract period.
- **Customer-specific products and systems:** Customer-specific products and systems: A number of products and systems are designed or adapted to customer-specific requirements. TKH recognizes turnover over a period if (i) the customer has control during the creation or improvement of the product / system or (ii) a product/system is created without alternative use and TKH has an enforceable right to payment for the work performed. Examples of (i) include tunnelsafety systems, airport groundlighting and parking guidance that are built up and commissioned on-site, as well as subsea cable systems. Examples of (ii) are amongst others machine vision cameras constructed for a specific customer application and by TKH integrated security and communication systems. If the two conditions mentioned above are not met, revenue is only recognized at transfer date. For customer-specific systems, installation can be part of the transaction price. A distinction is made between configuration and the physical installation. The configuration is an integral part of the system sold, while the installation is often regarded as a separate service that is usually outsourced to third parties. The installation services to be delivered are separately identifiable and accordingly the transaction price is attributed to the system and the installation based on the relative stand-alone selling prices. Installation is a performance obligation that is fulfilled over time. If revenue is recognized over a period, this is based on the stage of completion of the contract. The progress is determined on the basis of the input method based on a cost price method. Which means, the part of the contract costs incurred for the work that has been carried out to date in relation to the estimated total contract costs. For the payments due by the customer, which according to the contract can not yet be invoiced, a contract asset is recognized for the period in which the work has been carried out. This contract asset reflects the right to compensation for work performed to date. If more is invoiced than has been performed to date, a contract liability is recorded. Contract liabilities are recognized as revenue when TKH performs under the contract.

INDUSTRIAL SOLUTIONS

Industrial Solutions develops, produces and supplies solutions ranging from specialty cable, 'plug and play' cable systems to integrated systems for the manufacturing of car and truck tires. Services are also provided for integrated manufacturing systems.

- **Standardized products** are accounted for in a similar way as described in Telecom Solutions. Customer-specific products and systems for which there is no enforceable right to payment for the work that has already been performed, are also recognized as revenue in the same way.
- **Customer-specific products and systems** are accounted for in the same way in Building Solutions. A relatively large part of the turnover consists of customer-specific products and systems without alternative use and an enforceable right to payment for the work performed by TKH. Examples are special cable and cable systems for machines and robots, industrial automation systems and tire building systems. In contrast to Building Solutions, in the sub-segment manufacturing systems is the installation regarded as an integral part of the performance obligation to the customer, because on-site systems are constructed, configured and tested by employees.
- **Sales commissions:** Agents are used, who earn a sales commission on the revenue collected. These incremental costs for obtaining a contract are directly related to the sales that were realized in a certain period. The sales commissions are capitalized as contract costs and amortized over the expected contract period.

The obligation to repair or replace defective products under the standard warranty conditions is recognized as a warranty provision. In addition, TKH offers to a limited extent an extended warranty that is sold together with products and systems. Two performance obligations can be distinguished in such contracts, namely the delivery of products and services and the service-type warranty. Using the relative stand-alone sales price method, a portion of the transaction price is allocated to the service-type warranty and recognized as a contract liability. Revenue is recognized on a straight-line basis over the period in which the service-type warranty is granted based on the time elapsed.

Operating expenses**General**

The cost of production and other expenses directly related to ordinary operational activities, which underlie the turnover, are stated as operating expenses.

Government subsidies

Government subsidies are recognized in the statement of profit and loss in the same period as the expenses to which they relate. The subsidy is deducted from the related costs. Subsidies relating to non-current assets are stated as amounts received in advance and credited to the profit and loss account over the expected useful life of the asset concerned.

Share-based payments

TKH has a stock option and a share scheme, which both qualify as share-based payments:

- The stock options are settled in equity instruments. They are valued at fair value at the date they were granted. The fair value is calculated by using an option pricing model that takes into account market related vesting conditions attached to the granting of the options. The fair value is written off against the profit and loss account over the period between the granting of the options and the time that the share options vest, adjusted for the expected number of share options to be exercised.

- The shares issued free of charge are also settled in equity instruments and are measured at the grant date at fair value. The fair value is determined based on the prevailing share price at the time of grant. The fair value is charged to the profit and loss account in the year to which the grant relates.

Financial income and expenses

Financial income and expenses comprise the interest received from or paid to third parties relating to the year under review. Interest is recognized according to the effective interest method. The interest income and the interest expenses on bank accounts that belong to one and the same interest combination are set off. The interest balance of the interest combination is stated under interest income or interest expenses. Financial expenses related to the construction of tangible non-current assets have been recognized as part of the asset. Translation differences on sale and purchase transactions are classified under financial income and expenses.

Tax

Tax is calculated on the result before tax, taking into account the prevailing tax rates and tax legislation in the different countries. Tax is accounted for in the statement of profit and loss, unless it relates to items directly recognized in the OCI, in which case taxes are also accounted for in the OCI. In addition to the tax directly payable or receivable for the reporting year, the item also includes the changes in the deferred tax assets and liabilities and adjustments to tax assessments from previous years.

Non-controlling interest

This item comprises the share of third parties in the results and equity of subsidiaries according to TKH's accounting principles.

Cash flow statement

The cash flow statement has been drawn up using the indirect method. With this method, the net result is adjusted for items in the statement of profit and loss that have no impact on income and expenses in the year under review and changes in items in the balance sheet and statement of profit and loss whose income and expenses are not considered to belong to the operational activities. The cash position in the cash flow statement consists of cash and cash equivalents less short-term borrowings included in cash pools as this is part of the daily cash management.

Cash flows in foreign currencies are converted at an average exchange rate. Exchange differences with respect to cash and cash equivalents are presented separately in the cash flow statement. Income taxes, paid and received interest are included in the cash flow from operating activities. Received dividends are included in the cash flow from investment activities, while paid dividends are included in the cash flow from financing activities. The purchase price of acquisitions is included in the cash flow from investing activities, to the extent that payment has taken place in cash or cash equivalents. Cash and cash equivalents that are present in the acquired subsidiaries are subtracted from the purchase price. Transactions, which do not involve a cash exchange, are not included in the cash flow statement. The payments of the lease terms regarding financial lease contracts are presented as repayments on loans for the repayment component of debt and as paid interest for the interest component.

2 SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the consolidated financial statements management has made judgments, estimates and assumptions. These judgments, estimates and assumptions affect the reported amounts of assets and liabilities, revenues and expenses and disclosed contingent assets and liabilities at the date of the financial statements. The actual outcome can vary from these judgments, estimates and assumptions. All assumptions, expectations and forecasts used as a basis for judgments in the consolidated financial statements are as good as possible a reflection of the forecast of TKH. Management is of the opinion that a reasonable basis exists for the assumptions, expectations and forecasts. Judgments are related to known and unknown risks, uncertainties and other factors that can lead to future results and performances that significantly vary from those forecasted. Significant judgments, estimates and assumptions are described hereafter.

Fair values

TKH periodically reviews the significant fair value changes regarding specific positions in the financial statements. In case external information is used to determine the fair value, TKH reviews the evidence obtained from these third parties to verify if these valuations meet IFRS requirements, including the level of hierarchy of the fair values in which these valuations are classified. TKH applies the following hierarchy for determining the fair value of financial instruments:

- Level 1: Price quotations on active markets for identical assets and liabilities.
- Level 2: Other inputs than quoted prices included in level 1, that are either directly or indirectly observable for the asset or liability. TKH makes use of derivatives valuation reports of financial institutions. These valuations are checked with interest rates, interest curves and exchange rates that are regularly published.
- Level 3: Calculations that use input variables that have a significant effect on the fair value and that are not based on available market quotations. Here TKH may use valuations by independent appraisers.

The table below shows the hierarchy and carrying amounts of the assets and financial instruments that are recognized in the balance sheet at fair values:

In thousands of euros	Notes	Hierarchy	2018	2017
Assets				
Investment property	5	Level 3	251	251
Financial assets at fair value through P&L		Level 3	1,110	8,266
Foreign currency forward contracts	21	Level 2	500	2,215
Commodities (derivatives)	21	Level 2	73	2,223
Total			1,934	12,955
Liabilities				
Interest rate swaps	21	Level 2	464	405
Foreign currency forward contracts	21	Level 2	4,733	393
Commodities (derivatives)	21	Level 2	442	7
Total			5,639	805

The investment property concerns a residential house in the Netherlands. Given the limited value, a decrease in market value has a negligible effect on the net result and equity. The fair value of the financial assets measured at fair value with recognition of the change in value through the statement of profit and loss is calculated on the basis of expected cash flows discounted at the estimated market interest rate. Credit risks are taken into account in this market interest rate. TKH has concluded derivatives with various financial institutions with an investment grade rating. Interest rate swaps, forward exchange contracts and forward contracts on commodities are valued based on present value calculations using market data, such as the credit quality of counterparties, base spreads, spot and forward prices, yield curves and forward curves. More information about the assumptions for the determination of the fair value is included in the relevant explanatory notes.

Price, credit, interest and currency risks

Note 21 contains information about these risks.

Goodwill and intangible non-current asset related to acquisitions

In the financial statements a material amount has been reported for intangible non-current assets acquired in an acquisition. The first recognition of these assets at fair value has been determined on the basis of valuation models. The outcomes are largely dependent on management estimates with respect to the assumptions used (such as growth percentages, royalty fees, economic life) and future expectations. The difference between the purchase price and the acquired net fair value of the identifiable assets and liabilities is recognized as goodwill. Note 1 and 3 includes information about intangible non-current assets.

Impairments

Information about impairment testing is included in note 3. In recent years, investments have been made in the production facility of subsea cable systems. Because it is a new and innovative process for the development of a distinctive subsea cable portfolio, in which TKH still has a small market position, the degree of management estimates with regard to learning curve developments and capacity utilization is significantly higher. This also applies to a certain extent to the portfolio developed for CEDD airfield groundlighting. On the other hand, management involvement is also larger.

Contracts with customers

TKH develops, produces or configures products and systems on behalf of customers on which revenue is recognized over a period of time. As a result, interim profit is recognized, which is based on the expected profit on the contract and the estimated level of progress. This estimate makes use of detailed calculations that are specified for each performance obligation in a contract. Based on the realization and estimates of project managers and controllers, new estimates are drawn up periodically for each contract. These are reviewed by local management and are then used as the basis for the costs and revenue to be recognized. In a new innovative portfolio and/or production process, the uncertainty in management estimates can be significantly higher than in other projects due to the lack of historical experience figures and the learning curve that needs to be going through.

Pensions

The majority of the pension plans qualify as defined contribution plans. Only some in size limited plans qualify as defined benefit plans. Notes 1 and 17 include the assumptions used for the calculation of the pension expenses and the provision for pensions. In note 17 a sensitivity analysis on the present value of the defined benefit obligation is included in case of a change of the discount rate, salary increase and life expectancy.

Financial liabilities for squeeze-out, earn-out and put option agreements

In the financial statements, financial liabilities are recognized for obligations related to the squeeze-out of shareholders of non-controlling interests, earn-out agreements and put options granted to shareholders of non-controlling interests. The financial liabilities for earn-out and put options are based on estimates of future operating results and are derived from business plans of the companies concerned.

Other provisions

The other provisions relate amongst others to onerous contracts, warranty liabilities, claims and jubilee arrangements. These provisions are based on estimates and available information. With regard to onerous contracts with customers, reference is made to the previous paragraph 'contracts with customers'.

3 INTANGIBLE NON-CURRENT ASSETS

In thousands of euros	Notes	Goodwill		Brand names, customer relations and intellectual property		Development costs		Patents, licenses, software and trademarks		Total	
		2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Historical cost at 1 January		234,802	236,410	181,831	180,008	139,085	112,254	54,996	51,795	610,714	580,467
Accumulated amortization and impairment losses		2,243	2,243	115,741	100,382	67,479	55,286	33,099	27,035	218,562	184,946
Book value at 1 January		232,559	234,167	66,090	79,626	71,606	56,968	21,897	24,760	392,152	395,521
Purchases and capitalization						30,146	30,662	5,072	4,402	35,218	35,064
Acquisitions	35	79,154	742	72,752	3,872	4,392		525	19	156,823	4,633
Reclassification from tangible non-current assets	4					154		85	88	239	88
Reclassifications						-107	918	107	-918	0	0
Disposals							-206	-33	-20	-33	-226
Amortization	28			-16,318	-15,246	-17,689	-14,823	-6,306	-6,397	-40,313	-36,466
Impairment losses	29	-80				-1,441	-1,206			-1,521	-1,206
Exchange differences		769	-2,350	412	-2,162	347	-707	5	-37	1,533	-5,256
Book value at 31 December		312,402	232,559	122,936	66,090	87,408	71,606	21,352	21,897	544,098	392,152
Accumulated amortization and impairment losses		2,323	2,243	132,652	115,741	85,153	67,479	41,225	33,099	261,353	218,562
Historical cost at 31 December		314,725	234,802	255,588	181,831	172,561	139,085	62,577	54,996	805,451	610,714

The additions for brand names, customer relations and intellectual property concern the fair value, which is allocated to these intangible non-current assets of acquired companies (see note 35). The intellectual property concerns in business combinations acquired licenses, designs, software and other intellectual property.

In thousands of euros	Goodwill		Discount rate before tax		Functional currency	Operating segment
	2018	2017	2018	2017		
CGU						
Indoor telecom & copper networks	29,597	29,596	9.6%	9.8%	EUR	Telecom Solutions
Fibre network systems	3,225	3,225	9.6%	10.9%	EUR	Telecom Solutions
Building connectivity systems	37,335	37,277	9.6%	9.7%	EUR	Building Solutions
Vision & security systems	202,893	123,109	10.0%	9.9%	EUR/USD	Building Solutions
Industrial connectivity systems	29,444	29,444	9.4%	9.8%	EUR	Industrial Solutions
Manufacturing systems	9,908	9,908	10.6%	10.7%	EUR	Industrial Solutions
Total	312,402	232,559				

The realizable value of the cash generating units, in which goodwill has been reported, is based on the value in use. The value in use is based on estimated future cash flows. These forecasts are derived from the internal business plans, which are drawn up annually and have a horizon of five years. These business plans contain financial budgets and have been prepared by local management and are approved by the Executive Board. Cash flows after the financial budget period have been extrapolated, taken into account an annual growth of 1.5% (2017: 1.5%). The future cash flows are discounted at the discount rate shown in the table, which is based on the risk profile of the CGU. Based on the adopted assumptions, the performed impairment test did not lead to impairment at year-end 2018, with the exception of a small impairment due to discontinued low-value distribution activities. In addition, in 2018 impairments totaling € 1.4 million were recognized, related to capitalized development costs in the CGU vision & security systems and manufacturing systems because of some small development projects that did not lead to goods or services for which a sufficient market demand is expected. Inherent to the applied calculation methodology, a change in the assumptions can lead to a different conclusion regarding impairment. In the table below, the impact of sensitivity analysis for all CGU's is shown in which:

- EBITDA decreases by 10%, or
- the discount rate increases by 1%, or
- the annual growth rate after the financial budget period decreases by 0.5%.

Goodwill is allocated to sub-segments, which are considered as cash generating units ('CGU'). Impairment is assessed at this level. The goodwill is allocated as follows per group of CGU's:

The amounts below relate to the impact on the recoverable value based on the sensitivity analysis. This analysis has not taken into account any potential cost reduction to maintain an adequate level of profitability.

In millions of euros	Decrease EBITDA by 10%	Increase discount rate by 1%	Decrease growth rate by 0.5%	Combination of all assumptions
Indoor telecom systems & copper networks	-13.4	-19.2	-7.8	-24.8
Fibre network systems	-52.4	-66.8	-28.3	-130.3
Building connectivity systems	-50.0	-54.9	-21.1	-110.0
Vision & security systems	-149.1	-170.6	-66.3	-339.4
Industrial connectivity systems	-56.6	-76.5	-30.0	-143.4
Manufacturing systems	-105.7	-115.7	-46.5	-238.4

The sensitivity analysis does not lead to impairment in one of the CGU's due to the available headroom between the recoverable value and the book value.

The market capitalization of TKH amounted to € 1,710 million on 31 December 2018 and was significantly higher than the book value of the net assets of TKH.

4 TANGIBLE NON-CURRENT ASSETS

In thousands of euros	Notes	Land and buildings		Machinery and installations		Other equipment		Operating assets in progress		Total	
		2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Historical cost at 1 January		192,709	176,695	251,543	228,180	122,489	112,861	13,233	34,020	579,974	551,756
Accumulated depreciation and impairments		85,264	80,627	174,906	171,531	90,522	86,425	70	70	350,762	338,653
Book value at 1 January		107,445	96,068	76,637	56,649	31,967	26,436	13,163	33,950	229,212	213,103
Purchases		8,070	10,406	15,589	16,920	12,924	12,948	6,575	1,961	43,158	42,235
Acquisitions		75	50	868	1,815	950	123	677		2,570	1,988
Disposals		-8	-324	-229	-426	-464	-537		-5	-701	-1,292
Depreciation	27	-6,067	-5,391	-11,428	-9,646	-10,606	-9,445			-28,101	-24,482
Impairments	29			4	108	-26	-41			-22	67
Exchange differences		-334	-1,293	-119	-801	-17	-222	-16	-3	-486	-2,319
Reclassification from/to intangible non-current assets	3			40	3	-279	-4		-87	-239	-88
Commissioning of assets in progress		1,173	7,929	6,831	12,015	238	2,709	-8,241	-22,653	1	0
Book value at 31 December		110,354	107,445	88,193	76,637	34,687	31,967	12,158	13,163	245,392	229,212
Accumulated depreciation and impairments		91,269	85,264	180,742	174,906	95,363	90,522	70	70	367,444	350,762
Historical cost at 31 December		201,623	192,709	268,935	251,543	130,050	122,489	12,228	13,233	612,836	579,974

In the tangible non-current assets, financial leases are included with a book value of € 0.2 million.

The accompanying financial debt included in the borrowings amounts to € 0.2 million.

5 INVESTMENT PROPERTY

In thousands of euros	Notes	2018	2017
Balance at 1 January		251	1,491
Disposals			-1,240
Balance at 31 December		251	251

The investment property is related to a Dutch residential house.

6 OTHER ASSOCIATES

In thousands of euros	2018	2017
Balance at 1 January	10,566	10,225
Acquisition of an interest		50
Share in result of associates	1,885	941
Dividend received	-255	-160
Exchange differences	-149	-490
Balance at 31 December	12,047	10,566

TKH owns direct or indirect the following relevant other associates:

Name of other associate	Place	Country	Ownership and control		Operating segment
			2018	2017	
Speed Elektronik Vertrieb GmbH	Schwelm	Germany	25.0%	25.0%	Telecom Solutions
INC Ltd.	Taipei	Taiwan	33.3%	33.3%	Telecom / Building Solutions
NET Italia S.r.l.	Brescia	Italy	49.0%	49.0%	Building Solutions
Shin-Etsu (Jiangsu) Optical Preform Co. Ltd.	Jiangyin	PR China	12.5%	12.5%	Telecom Solutions
Commend Australia Integrated Security and Communication Systems Pty Ltd.	Melbourne	Australia	49.0%	49.0%	Building Solutions
Traff Is BV	Hedel	Netherlands	33.3%	33.3%	Telecom Solutions
P + S Technik GmbH	Ottobrunn	Germany	23.2%	23.2%	Telecom Solutions

Despite the 12.5% interest in the associate Shin-Etsu (Jiangsu) Optical Preform Co. Ltd., TKH has significant influence over the financial and operating policies. The associate is a for TKH an important manufacturer of preforms (semi-finished product for the production of fibre optics). The strategic shareholding is linked to a right to 50% of the production capacity of this plant. TKH provides one of the three Supervisory Board members.

The overview on the right shows the summarized financial information of the other associates on the basis of the most recent available information, where the financial data are included based on the share

of interest in these companies. A large part of the financial information shown below relates to Shin-Etsu (Jiangsu) Optical Preform Co.Ltd. The information provided is based on local accounting standards.

In thousands of euros	Assets	Liabilities	Turnover	Net result	Other comprehensive income	Share in result of associates
Summarized financial information 2018	12,270	2,171	10,634	1,885	-149	1,885
Summarized financial information 2017	10,367	1,911	8,246	1,175	-490	941

7 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Under available-for-sale financial assets, a 5.06% stake in N.V. Nederlandsche Apparatenfabriek 'Nedap' was included on 31 December 2016 and was sold in September 2017. On this divestment, the cumulative profit included in the 'revaluation reserve for available-for-sale financial assets' has been reclassified to the statement of profit and loss. In 2017, this transaction resulted in an untaxed income of € 5.8 million in the statement of profit and loss. In addition, a dividend of € 474,000 was received in 2017, which was recognized separately in the profit and loss. On 31 December 2017 and thereafter, the balance is nil.

8 INVENTORIES

In thousands of euros	2018	2017 ¹
Raw materials	87,001	65,192
Work in progress	19,965	22,209
Finished goods	147,997	131,404
Inventories	254,963	218,805

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

An amount of € 781.4 million is reported in the statement of profit and loss for costs of raw materials, consumables and finished goods (2017: € 714.0 million). A part of inventories is valued at lower net realizable value. The book value of these written-down inventories is € 17.0 million (2017: € 14.1 million). The total write-down on inventories, based on aging analysis and sales statistics, in 2018 recognized in the statement of profit and loss is € 2.0 million (2017: € 3.0 million).

9 RECEIVABLES

In thousands of euros	Notes	2018	2017 ¹
Trade accounts receivable		202,046	188,208
Loss allowance	21	-7,965	-9,160
Derivatives	21	573	4,439
Receivables from related parties	34	454	729
Prepayments and accrued income		8,277	8,798
Other short-term receivables		20,088	24,184
Long-term receivables		2,007	2,960
Receivables		225,480	220,158

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

10 CONTRACT ASSETS

The following table provides information on receivables, capitalized contract costs, contract assets and contract liabilities from contracts with customers.

In thousands of euros	2018	2017 ¹	1-1-2017
Trade accounts receivable	202,046	188,208	173,744
Contract assets	140,135	94,607	105,377
Contract liabilities	-57,032	-60,267	-45,794
Refund liabilities from customer volume rebates	-4,480	-3,718	-2,693
Contract costs	3,555	12,282	10,866

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

The contract assets mainly relate to the rights of TKH to consideration for work performed, but which have not yet been invoiced on balance sheet date. The contract assets are reclassified to receivables when the rights become unconditional. The contract liabilities mainly relate to the advance payment received from customers, of which the revenues are recognized at the performance of the contracted work. As at 31 December 2018, advance payment and performance guarantees were provided to customers amounting to € 70.5 million (2017: € 58.6 million). These guarantees are included in the off-balance sheet commitments (note 22). A large part of the contract assets and liabilities relates to the sub-segment manufacturing systems (Industrial Solutions).

The amounts on the left are expected to be settled within 12 months, with the exception of long-term receivables. The receivables are mainly held according to a 'held-to-collect' business model. TKH applies non-recourse factoring that transfers the ownership of the trade receivables and the associated risks to a factoring company. At the end of 2018 receivables with an amount of € 52.6 million are sold to a factoring company (2017: € 50.9 million). The trade receivables are non-interest bearing and generally have a payment term between 14 and 90 days. Credit risk is further described in note 21. Due to acquisitions, trade receivables increased by € 10.1 million at the end of 2018.

The increase is related to the higher order intake, especially for tire building systems in the past two years. The changes in the balance of contract assets and liabilities during the financial year are as follows:

In thousands of euros	Contract assets		Contract liabilities	
	2018	2017	2018	2017
Revenue recognized that was included in the contract liability balance at the beginning of the period			60,267	45,794
Increases due to cash received, excluding amounts recognized as revenue during the period			-57,032	-60,267
Transfers from contract assets recognized at the beginning of the period to receivables	-94,607	-105,377		
Increases as a result of changes in the measure of progress	140,135	94,607		

The commissions paid to agents for obtaining the contracts are expected to be recovered and are therefore capitalized as contract costs. Capitalized commissions are amortized when the related revenue is recognized. In 2018, amortization amounted to €19.5 million (2017: € 12.2 million), which is included in the statement of profit and loss under raw materials, consumables, trading products and outsourced work. There was no impairment in the financial year in respect of the capitalized contract costs. The restitution obligations for agreed customer volume discounts are mostly annual bonuses based on revenue tables. The accrual is calculated based on historical figures, revenue already realized and the outstanding order book.

The following table shows the expected future revenue with respect to contractual performance obligations that have not yet (or partially) been satisfied at balance sheet date. TKH applies the exemption for disclosing the amount of the transaction price that can be allocated to the outstanding performance obligations on 31 December 2017.

In thousands of euros	2018
Expected to be recognized as revenue within 1 year	400,299
Expected to be recognized as revenue between 1 and 2 years	34,832
Expected to be recognized as revenue after 2 years	8,320
Total	443,451

11 CASH AND CASH EQUIVALENTS

In thousands of euros	2018	2017
Cash and bank balances as included in the cash flow statement	60,905	45,713
Cash and bank balances in cash and interest pools	22,275	42,006
Cash and bank balances	83,180	87,719

Cash and cash equivalents consist of cash and bank balances and deposits that are direct available on demand.

13 NON-CONTROLLING INTEREST THIRD PARTIES

At the following subsidiaries that are or were not fully owned by TKH during the year at any time, there are material third party non-controlling interests:

Name subsidiary	Ownership and control held by non-controlling interests		Result non-controlling interests		Cumulative non-controlling interests	
	2018	2017	2018	2017	2018	2017
Commend International GmbH (Salzburg, Austria)		26.0%		1,087		7,346
Other			185	141	1,190	1,094
Total			185	1,228	1,190	8,440

TKH purchased the non-controlling interest in Commend International at the beginning of January 2018 for € 9.0 million. A financial liability was already been included at the acquisition date of Commend International. The other non-controlling interests are not material.

12 EQUITY

The group equity is equal to the shareholders' equity. See the consolidated statement of changes in equity for a breakdown of the group equity and the disclosure notes to the company only financial statements.

The summary below only shows the summarized financial data of the material non-controlling interest in Commend International.

In thousands of euros	Commend International GmbH	
	2018	2017
Non-current assets		21,075
Current assets		13,092
Shareholders' equity		28,420
Non-current liabilities		3,709
Current liabilities		2,039
Total turnover		34,127
Operating result		5,534
Net result		4,182
Total comprehensive income for the period (net of tax)		-46
Dividends to shareholders of non-controlling interests		1,116

14 OTHER PROVISIONS

The long-term provisions have been discounted. The increase of the provision as a result of expiration of time and adjustment of the discount rate is minor. The short-term provisions have not been discounted since the effect is not material. The short-term part of the provision is mainly related to reorganizations and warranties. The term of the other provisions is as follows:

In thousands of euros	2018	2017 ¹
Term shorter than 1 year	12,944	11,745
Term between 1 and 5 years	3,157	2,785
Term longer than 5 years	2,060	2,170
Other provisions	18,161	16,700

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

The specification and movement of the other provisions is as follows:

In thousands of euros	Warranty	Employee liabilities	Onerous contracts	Restructuring	Other	Total
Balance at 31 December 2017	7,066	2,893	486	1,310	656	12,411
IFRS 15 restatement			4,289			4,289
Restated balance at 1 January 2018	7,066	2,893	4,775	1,310	656	16,700
Additions and releases through the profit and loss account	835	256	1,355	741	36	3,223
Acquisitions	130				52	182
Withdrawal	-1,224	-25	-191	-569	-39	-2,048
Reclassification			404		-340	64
Exchange differences	22	-10	23	5		40
Balance at 31 December 2018	6,829	3,114	6,366	1,487	365	18,161

Provision for warranties

The provision for warranties is related to warranties on for delivered products and services under the standard warranty conditions. The purpose of the provision is to cover costs arising if products and services supplied do not meet the agreed specifications and quality requirements under normal conditions of use. The provision is based on judgments by using historical warranty data relating to comparable products and services and known warranty claims at balance sheet date. In general the recorded liabilities are expected to arise in the next one to three years.

Employee liabilities

The provision for employee liabilities mainly relates to defined jubilee arrangements and is in general long-term.

Restructuring liability

The restructuring provision relates mainly to the lay-off of employees. The remaining term is less than 1 year.

Onerous contracts

The provision for onerous contracts mainly relates to contracts with customers, from which the revenue is accounted for over a period of time. This mainly concerns contracts in the sub-segment manufacturing systems, which relate to new technologies often in combination with newly acquired customers. Because of the strategic importance of these contracts for the future revenue and profit development of TKH, these have been accepted with a negative or a limited margin at order acceptance. In addition, the provision for onerous contracts relates for € 0.4 million to a lease of vacant premises as a result of a shift of production to another TKH company. Subletting is unlikely, given the market situation in the region concerned. The rent ends in mid 2020.

Other items

The other items relate to claims, matters of dispute, guarantees which are expected to be claimed and other contractual obligations. These liabilities consist of amounts at which a conviction by an independent party will probably lead to compensation. The recognized provisions have been based on the best estimate, made on the basis of currently available information and will mainly have a term no longer than one year. There is no asset recognized for expected compensation fees in relation to the reported provisions.

15 FINANCIAL LIABILITIES

The movement of the financial liabilities is as follows:

In thousands of euros	Purchase price	Earn-out and squeeze-out	Put options of shareholders of non-controlling interests	Total
Balance at 1 January 2018	0	1,514	13,157	14,671
Acquisitions	508			508
Payment for acquisitions and non-controlling interests from previous years		-216	-9,035	-9,251
Change in value through the profit and loss account		-656	136	-520
Exchange differences		11		11
Balance at 31 December 2018	508	653	4,258	5,419

In thousands of euros	2018	2017
Term shorter than 1 year	4,831	11,781
Term between 1 and 5 years	412	2,557
Term longer than 5 years	176	333
Financial liabilities	5,419	14,671

Purchase price

This part of the purchase price relate to acquisitions in 2018. It is due to the former shareholders and will be settled in 2019.

Earn-out and squeeze-out

For several acquisitions, contractual arrangements have been made about earn-out payments, when certain targets are realized. The liability for earn-out payments has been determined on the basis of expected fair value of the future cash outflows. The terms of the earn-outs are contracted and an amount of € 0.7 million will expire within one year. An amount of € 0.2 million has a term of more than five years. The payment of earn-out arrangements relates mainly to KLS, Dewetron and Redline CNC Manufacturing. Among the financial liability for earn-out, also a limited financial liability is included for legal proceedings received from former shareholders of non-controlling interests in Augusta Technology AG related to the compensation payment for the 'squeeze-out' merger. At the end of July 2017, a settlement was agreed in the 'squeeze-out' procedure. This settlement has resulted in 2017 in a one-off income of € 2.2 million due to a partial release of the financial liability.

Put options of shareholders of non-controlling interests

TKH has option rights on several non-controlling interests held by local management of subsidiaries of TKH. Besides, TKH has a liability to buy these shares when local management decides to offer these shares. A financial liability has been recognized for this obligation. During the financial year, the option related to the 26.0% interest in Commend International was exercised.

On the balance sheet date, the following option rights and liabilities are outstanding:

Name of subsidiary	Percentage	Option exercisable as from
EFB Nordics A/S	10.0%	1 January 2014
USE System Engineering B.V.	25.0%	1 January 2014
Mextal B.V.	5.0%	1 January 2019
Pantaflex B.V.	5.6%	1 January 2017
Flexposure B.V.	30.0%	1 January 2019
TKH Parking Technology B.V.	49.0%	1 January 2019

The liability is based on the expected discounted value of the future cash outflows. The expected maturity of the above mentioned liabilities is equal to the period as from 31 December 2018 till the first possibility to exercise. The amount to be paid depends on the future results of the aforementioned subsidiaries. The year of the cash outflow is dependent on a decision to exercise by TKH or the option owner. An amount of € 4.2 million has a maturity of shorter than 1 year.

16 DEFERRED TAX

The deferred tax assets and liabilities relate to the following items of which the movements are also shown:

In thousands of euros	Land and buildings	Intangible non-current assets	Inventories and construction contracts	Tax write-down of loans	Provisions	Unused tax losses and credits	Financial instruments	Undistributed intragroup profits	Other	Total
Balance at 31 December 2016	-2,730	-31,150	-2,963	-1,235	1,763	9,956	876	-8,186	1,777	-31,892
IFRS 15 restatement			-838							-838
Restated balance at 1 January 2017	-2,730	-31,150	-3,801	-1,235	1,763	9,956	876	-8,186	1,777	-32,730
(Charge)/credit to other comprehensive income					6		-1,784			-1,778
(Charge)/credit to profit or loss	-128	3,148	841	1,235	-293	-1,249		3,095	-2	6,647
Acquisitions		-1,405			112					-1,293
Balance at 31 December 2017	-2,858	-29,407	-2,960	0	1,588	8,707	-908	-5,091	1,775	-29,154
IFRS 9 restatement									249	249
Restated balance at 1 January 2018	-2,858	-29,407	-2,960	0	1,588	8,707	-908	-5,091	2,024	-28,905
(Charge)/credit to other comprehensive income					-81		2,175			2,094
(Charge)/credit to profit or loss	236	-1,465	-892		-334	864		1,390	1,464	1,263
Acquisitions		-18,001			255					-17,746
Balance at 31 December 2018	-2,622	-48,873	-3,852	0	1,428	9,571	1,267	-3,701	3,488	-43,294

Certain deferred tax assets and liabilities have been offset in accordance with the applicable principles in IFRS. The deferred tax assets and liabilities are recognized in the balance sheet as follows:

In thousands of euros	2018	2017 ¹
Deferred tax assets stated under non-current assets	17,104	14,234
Deferred tax liabilities stated under non-current liabilities	-60,398	-43,388
Deferred taxes	-43,294	-29,154

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

TKH has unused tax losses, which have not been recognized because realization is uncertain. These unused tax losses can be compensated with future profits. Based on current tax legislation, these unused and unrecognized tax losses have the following terms:

In thousands of euros	2018	2017
Term infinite	36,524	32,911
Term longer than 10 years	85	14
Term between the 5 and 10 years	115	356
Term shorter than 5 years	1,988	1,306
Unrecognized tax losses and credits	38,712	34,587

The unrecognized unused tax losses represent a value of € 9.1 million at the end of 2018 based on the applicable tax rates.

17 PENSIONS

Defined contribution plans

In addition to the industry pension schemes, TKH has pension schemes which have been included in a group pension contract with the external pension company Nationale Nederlanden. This pension insurer guarantees that the accrued pensions will be paid out for life to the relevant participants, of course subject to the condition that TKH has met its pension premium payment obligations. In the pension arrangement there is a build-up of guaranteed pension entitlements up to a certain salary threshold, above the threshold there is a defined contribution plan. The pension premiums of both arrangements contain no elements that are related to the past. A fixed agreed percentage of the annual premiums are paid into a deposit for indexation. From this, future conditional indexations can be financed. The amount of the annual indexation will depend on the balance of the indexation depot, the price/wage inflation and the decision of TKH in this regard. TKH will not, however, make any additional payments for the purpose of indexation next to the annual set agreed raise on the premiums, but will also not be able to withdraw funds from the indexation depot for its own benefit. In this form of conditional indexation and financing, no actuarial risks are carried by TKH and as such the pension plan qualifies as a defined contribution plan.

The employees of the foreign subsidiaries are members of industry or state-managed pension plans. The subsidiaries are only required to pay a certain percentage of the salary costs to the concerning industry or state managed pension plans. These pension schemes classify as defined contribution plan. The pension schemes in the Netherlands, to the extent not already covered by the industry pension schemes, classify as defined contribution plans as described above. The total pension expense recognized in 2018 related to the defined contribution plans amounts to € 11.4 million (2017: € 10.3 million). The industry pension plans are included in this pension expense. TKH expects for 2019 a pension expense of € 12 million for defined contribution plans.

Defined benefit plans

Terminated defined benefit and top-up pension plans

Until 31 December 2014, TKH had defined benefit and top-up pension plans in the Netherlands besides the pension schemes covered by the industry pension schemes. The plans differed from one subsidiary to another and related to average salary schemes. For these pension schemes TKH had a group pension contract with external pension company Nationale Nederlanden. The pension agreement concerned a so-called guaranteed contract. The accrued pension and the indexation depot until 2014 will remain, where TKH has no payment obligations or obligation to fund shortages. Only in the case of outgoing value transfers there is a possibility that Nationale Nederlanden charges TKH related to the accruals in the period until 31 December 2014. Due to the right of legal value transfer, this may be associated with additional payments from the employer. This risk is, in line with the valuation methodology in the past, not included in the valuation. As the risk is limited, any additional payments will be taken in the year they occur.

Multi-employer union plans

In the Netherlands 1,735 employees of TKH participate in the multi-employer union plans of 'Pensioenfondsvan de Metalektro' ('PME') and 'Pensioenfondsvan Metaal & Techniek' ('PMT') in accordance with the collective bargaining agreements applicable for the industry in which the TKH companies operate. These collective bargaining agreements have no expiration date. PME covers approximately 1,300 companies and 311,000 participants and PMT approximately 35,000 companies and 1,200,000 participants. The pension rights of each employee are based upon the employee's average salary during employment (depending on coverage ratio). TKH's contribution to the multi-employer union plans are far less than 5% of the total contribution to the plans. The pension funds are subject to regulation by Dutch governmental authorities. By law (the Dutch Pension Act), a multi-employer union plan must be monitored against specific criteria, including the coverage ratio of the plan assets to its obligations. The multi-employer union plans have reported the following coverage ratio at year-end:

	2018	2017
coverage ratio of PME	101.3%	100.1%
coverage ratio of PMT	102.3%	100.6%

The actual coverage ratio is calculated by dividing the plan assets by the total sum of pension liabilities. The coverage ratio is the average coverage ratio over the past 12 months. The required policy funding ratio must be 104.3% for both funds by the end of 2019. If it is anticipated that this level will not be achieved with the use of all available steering instruments, the industry pension funds can cut the entitlements. Due to the low coverage ratio, PME and PMT have prepared up a so-called recovery plan, which has been approved by De Nederlandsche Bank, which acts as supervisor for all pension funds in the Netherlands. The level of the (average) premiums as a percentage of the PME and PMT salary amounts is set for the period 2015-2019 and is not regarded as a steering instrument by the two industry pension funds. The CAO parties already agreed to cut the pension if the (average) premium would be inadequate in the period 2015-2019 to meet the regulatory requirements of the coverage ratio. The level of (average) premium for all participating companies the same and depending on the pensionable salaries and is chosen such that the expected contribution as a percentage of pensionable salary during this period remains the same. Due to the low coverage ratio, it is expected that no indexation will be applied to pensions in the coming years and that there will be a risk of a reduction in pensions in the future. There are no additional contribution requirements for participating companies to prevent indexation cuts or lowering of pensions. The schemes qualify as defined benefit plans because the companies bear the risk that in the negotiation of the level of pension contributions after 2019 the social partners will take the amount of a surplus or a deficit in the industry pension fund as part of the negotiations. As a result, future premiums may be somewhat related to deficits or surpluses that relate to pension entitlements accrued in the past. This concerns shortages or surpluses of current and former employees of TKH but also of other companies. In addition, there is no consistent and reliable basis for

allocating the pension liability, assets and costs to individual companies participating in the industry pension scheme. TKH therefore classifies the multi-employer plans as if it were defined contribution plans. TKH's net periodic pension cost for the multi-employer plan over a financial period is equal to the required contribution for that period.

Other pension schemes

There are some individual defined benefit plans abroad for a small number of participants. These defined benefits are accrued in the subsidiaries and are not covered by plan assets. The duration of the defined benefit obligations of these arrangements will be, on average, 18 years at 31 December 2018. Furthermore, there is legislation for the Austrian employees obligating to pay a onetime compensation at the end of the employment for employees working for the subsidiary before 1 January 2003. The amount of compensation depends on the years of service and the average salary in the last 3 years of service. The actuarial calculations for the pension schemes are performed by actuaries.

The following assumptions have been applied in the actuarial calculations:

	2018	2017
Discount rate before tax	1.6-2.3%	1.4-2.0%
General percentage salary increase	1.6%	2.0%

The following amounts are recognized in the balance sheet with respect to all defined benefit plans:

In thousands of euros	2018	2017
Present value of the defined benefit obligations	7,984	8,172
Fair value of the plan assets		
Net pension obligation	7,984	8,172

The following amounts are recognized in the statement of profit and loss with respect to the defined benefit plans:

In thousands of euros	2018	2017
Current service costs	399	415
Interest costs included in financial expenses	135	141
Pension expense in the profit and loss account	534	556

For 2019 TKH expects to pay a pension premium of € 0.5 million (including contributions from participants) related to the defined benefit plans.

The change in the present value of the defined benefit plan obligations is as follows:

In thousands of euros	2018	2017
Balance at 1 January	8,172	7,957
Current service costs	399	415
Interest costs included in financial expenses	135	141
Actuarial (gains)/losses recognized through other comprehensive income	-317	-26
Entitlements paid	-579	-315
Acquisitions	174	
Balance at 31 December	7,984	8,172

Changes in the assumptions have consequences for the present value of the defined benefit obligation. In the summary below a sensitivity analysis on the gross and net defined benefit obligation is shown for the four largest pension schemes, which together represent 69% of the net pension liability, when there is an absolute change of 1% or 1 year in the relevant assumptions:

	2018		2017	
	+1.0%	-1.0%	+1.0%	-1.0%
Discount rate	-785	947	-982	1,243
General percentage salary increase	519	-477	714	-597
	+1 year	-1 year	+1 year	-1 year
Mortality table	252	-292	291	-193

18 NON-CURRENT LIABILITIES

In thousands of euros	Notes	2018	2017
Debts to credit institutions	19	238,235	185,224
To be amortized transaction costs for the credit facility		-708	-877
Loans from related parties		674	873
Other non-current liabilities		336	2,115
Non-current liabilities		238,537	187,335

19 BORROWINGS

In thousands of euros	Notes	Term	Interest	2018	2017
Liabilities reported under non-current liabilities	18	5.1 years	Euribor + margin	238,235	185,224
Bridge facility		< 1 year	Euribor + margin	100,000	
Borrowings reported under current liabilities		< 1 year	Euribor/Libor + margin	70,569	57,350
Cash and cash equivalents	11	< 1 year	Euribor/Libor - margin	-83,180	-87,719
Net interest bearing debt				325,624	154,855

In the second half of 2018, TKH attracted a bridge facility of € 100 million with a term to end 2019 to finance the acquisition of Lakesight Technologies. The interest is based on Euribor plus a credit margin. The credit margin on the bridge facility starts at 0.75% and may increase depending on the amount drawn and the maturity. At year-end 2018, € 22.3 million of the borrowings forms part of cash and interest pools (2017: € 42.0 million). The interest on the borrowings is variable and based on Euribor or Libor. The credit margins differ per credit institution and country and vary from 0.8% to 1.5%. The material subsidiaries are guarantor for the obtained financing. No special securities were provided. See note 21 for more details on the capital and liquidity risk.

The credit margin on the non-current debts to credit institutions is variable and dependent on the net-interest bearing debt/EBITDA, including the amount of the draws from the credit facility. On average the margin is 1.3%. The interest is variable and based on Euribor or Libor. The material subsidiaries are guarantor for the obtained financing. No additional securities were provided. See note 21 for more details on the capital and liquidity risk.

The overview below shows the changes in the interest-bearing liabilities arising from financing activities

In thousands of euros	Borrowings		Non-current liabilities		Total	
	2018	2017	2018	2017	2018	2017
Balance at 1 January	57,350	51,992	187,335	213,913	244,685	265,905
Cash flows from financing activities	99,642	-11,537	50,966	-26,778	150,608	-38,315
Proceeds/(repayments) from cashpools	-19,731	12,214			-19,731	12,214
<i>Non-cash changes:</i>						
• Acquisition of subsidiaries	35,027	4			35,027	4
• New financial leases	88	48			88	48
• Amortized transaction costs			236	200	236	200
• Effect of changes in exchange rates	-1,807	4,629			-1,807	4,629
Balance at 31 December	170,569	57,350	238,537	187,335	409,106	244,685

The withdrawals and repayments of cash pools relate to changes in cash pools presented under cash and cash equivalents (note 11).

20 TRADE AND OTHER PAYABLES

In thousands of euros	Notes	2018	2017
Trade creditors		211,758	195,245
Advance receipts		1,890	919
Other taxes and social insurance contributions		21,205	20,462
Derivatives	21	5,639	806
Refund liabilities from customer volume rebates		4,480	3,718
Other payables and accruals		69,641	65,198
Trade payables and other payables		314,613	286,348

The other payables and accruals relate to, among others, personnel bonuses to be paid, commissions, holidays and holiday allowances as well as accruals for invoices to be received.

21 FINANCIAL INSTRUMENTS AND RISKS

General

The main financial risks faced by TKH relate to the capital and liquidity risk, interest risk, currency risk, credit risk and price risk. TKH's financial policy is aimed at minimizing the effects of fluctuations in currency exchange and interest rates on its results in the short-term and following market rates in the long-term. TKH uses derivatives to manage the financial risks relating to the business operations and does not undertake speculative positions. For financial risks and the control of these risks is referred to the chapter 'Risk management' in the annual report.

Capital and liquidity risk

External financing is contracted by the holding for the entire TKH Group. TKH has a committed revolving and standby credit facility of € 350 million with a group of banks. In 2018, the banks agreed to an extension of the term to mid-January 2024. The revolving and standby credit facility has a high flexibility in relation to utilizations and repayments. In addition to the committed facility, there is a bridge facility of € 100 million that will expire at the end of 2019. Next to the committed facility, there are uncommitted facilities with several banks for a total of € 275 million. As at 31 December 2018, TKH has unused

available credit facilities for a total of € 332 million (2017: € 387 million). In the calculated available credit facilities the outstanding bank guarantees have been taken into account. The maximum credit facility per subsidiary is determined centrally. In the credit facility the following financial covenant is agreed, which is monitored on a quarterly basis:

	Covenant	Realization 31-12-2018	Realization 31-12-2017
Net debt compared to EBITDA (debt leverage ratio)	< 3.0	1.5	0.9

It has been agreed with the banks that in the calculation of the debt leverage ratio the acquisitions may be consolidated pro forma for 12 months. Internally, TKH uses a debt leverage ratio up to 2.0. TKH operates by the end of 2018 within the banks' required covenant.

The following table provides an overview of the liquidity risk for the financial liabilities of TKH at the end of 2018 based on agreed repayment periods:

In thousands of euros	Average interest	Payable on demand	<3 months	>3 months <1 year	1-5 years	>5 years	Contractual cash flows	Book value
Non-current liabilities	1.3%		775	2,326	12,404	238,795	254,300	238,537
Financial liabilities				4,831	412	176	5,419	5,419
Borrowings	1.0%	70,569		100,500			171,069	170,569
Trade creditors			211,758				211,758	211,758
Other payables excluding derivatives			74,121				74,121	74,121
Interest rate swaps (derivatives)			47	142	622		811	464
Foreign currency forward contracts (derivatives)			20,615	55,870	1,300		77,785	4,233
Commodities (derivatives)			-4	204	169		369	369
Financial liabilities		70,569	307,312	163,873	14,907	238,971	795,632	705,470

The following table provides an overview of the liquidity risk for the financial liabilities of TKH at the end of 2017 based on agreed repayment periods:

In thousands of euros	Average interest	Payable on demand	<3 months	>3 months <1 year	1-5 years	>5 years	Contractual cash flows	Book value
Non-current liabilities	1.3%		609	1,827	9,741	185,102	197,279	187,335
Financial liabilities				11,781	2,557	333	14,671	14,671
Borrowings	1.0%	57,493					57,493	57,350
Trade creditors			195,245				195,245	195,245
Other payables excluding derivatives			68,916				68,916	68,916
Interest rate swaps (derivatives)			100	302			402	405
Foreign currency forward contracts (derivatives)			22,895	44,365	1,063		68,323	-1,822
Commodities (derivatives)			-73	-545	-1,598		-2,216	-2,216
Financial liabilities		57,493	287,692	57,730	11,763	185,435	600,113	519,884

The cash flows in these statements are not discounted. The cash flows are based on the interest rates and the exchange rates at the end of the year. The cash flows for interest rate swaps are based on the contracted fixed interest rates compared to the variable interest rate at balance sheet date. The interest rate swap and commodity derivatives are net settled. Currency contracts are gross settled. The following table shows the corresponding reconciliation of these amounts and their book value:

In thousands of euros	Payable on demand	<3 months	>3 months <1 year	1-5 years	>5 years	31-12-2018 Total
Incoming		20,391	52,846	1,130		74,367
Outgoing		-20,615	-55,870	-1,300		-77,785
Net	0	-224	-3,024	-170	0	-3,418
Discounted at contractual bank rates		-449	-3,614	-170		-4,233

In thousands of euros	Payable on demand	<3 months	>3 months <1 year	1-5 years	>5 years	31-12-2017 Total
Incoming		23,074	46,079	1,098		70,251
Outgoing		-22,895	-44,365	-1,063		-68,323
Net	0	179	1,714	35	0	1,928
Discounted at contractual bank rates		157	1,627	38		1,822

Interest risk

The interest risk policy aims at minimizing the interest rate risks associated with the financing of the company and thus at the same time optimizing the net interest costs. Long-term financing has been obtained with a floating-rate and will partly be fixed by means of interest rate swaps, whereby TKH aims to fix 40-70% of the interest associated with the borrowing. The following table provides an overview of the, for hedging purposes, agreed interest rate swaps:

In thousands of euros (unless stated otherwise)	Average contracted interest rate		Nominal amount			Fair value
	2018	2017	2018	2017	2018	2017
Maturity <1 year		1.28%		25,000		-405
Maturity between 2 and 5 years	0.45%		25,000		-464	
Interest rate swaps (derivatives)			25,000	25,000	-464	-405

Cash flow hedge accounting has been applied to all interest rate swaps mentioned above. There was no material ineffectiveness in relation to these hedges.

The following sensitivity analysis of borrowings, bank credits and cash and related interest rate swaps to interest rate movements assumes an immediate 1% change in interest rates for all currencies and maturities, with all other variables held constant. A raise of the interest rates with 1% would result in:

- Additional interest costs of about € 3.0 million per year as a result of financing and cash with a floating interest rate (2017: € 1.3 million). The impact is reduced by existing interest rate swaps.
- An increase of the fair value of the financial instruments with about € 1.1 million (2017: € 0.3 million) as a result of the contracted interest rate swap. This raise would be recognized in the hedging reserves of the equity through the consolidated statement of comprehensive income.

Currency risk

It is TKH's general policy to hedge currency risks on purchases if these risks cannot be charged to the market. Purchase transactions in foreign currencies are hedged when the sales prices are already fixed in case of material transactions. Sales transactions in foreign currencies are fully hedged in case of material transactions. The main currencies that cause this exposure are the USD, CNY and CAD.

Foreign currency forward contracts are applied to minimize the exposure of fluctuations in the currency rates. These contracts mainly have a term to maturity of less than one year. In addition to the currency

risk on the purchase and sale transactions, there is a currency risk resulting from the translation of net investments in TKH subsidiaries denominated in functional currencies other than euros. The main currencies that cause this exposure are the USD, CNY, CAD, AUD and PLN. These risks are partially hedged by financing these investments in local currency. The remaining risk is not hedged. The carrying amounts of monetary assets and liabilities specified to currencies are as follows:

In thousands of euros	Euro			USD		CNY		Other currencies		Total
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Receivables	271,236	238,164	29,499	30,017	41,504	14,524	21,368	21,476	363,607	304,181
Cash and cash equivalents	42,155	55,418	16,037	12,455	13,179	10,444	11,809	9,402	83,180	87,719
Non-current liabilities	-238,537	-187,335							-238,537	-187,335
Current borrowings	-132,775	-10,030	-28,708	-38,311			-9,086	-9,009	-170,569	-57,350
Trade payables and other payables	-296,951	-288,804	-16,669	-14,471	-37,575	-30,270	-20,450	-13,070	-371,645	-346,615
Total	-354,872	-192,587	159	-10,310	17,108	-5,302	3,641	8,799	-333,964	-199,400

On balance sheet date, TKH has entered into foreign currency forward contracts:

In thousands of euros (unless stated otherwise)	Average contract rate		Nominal amount in foreign currency			Fair value
	2018	2017	2018	2017	2018	2017
Cashflow hedges of balance positions						
Sell USD with settlement within 3 months	1.19	1.12	-3,958	-2,029	-245	114
Buy USD with settlement within 3 months	1.15	1.18	75	838		-14
Buy GBP with settlement within 3 months	0.89		167			
Buy JPY with settlement within 3 months		131.19		25,000		-5
Buy CNY with settlement within 3 months	7.89	7.76	82,654	79,079	48	-60
Buy CNY with settlement between 3 months and 1 year		7.88		38,434		48
Cash flow hedges						
Sell USD with settlement within 3 months	1.20	1.10	-3,637	-1,907	-294	151
Sell USD with settlement between 3 months and 1 year	1.26	1.12	-43,253	-27,006	-3,938	1,504
Sell USD with settlement after 1 year	1.32	1.16	-1,488	-1,274	-170	38
Buy USD with settlement within 3 months	1.15	1.20	91	3,544	1	-10
Buy USD with settlement between 3 months and 1 year	1.19	1.10	253	2,490	8	-187
Buy GBP with settlement between 3 months and 1 year	0.90		293		4	
Buy JPY with settlement within 3 months		132.09		15,000		-2
Buy JPY with settlement between 3 months and 1 year		133.25		10,000		-1
Buy CNY with settlement within 3 months	7.89	7.78	25,029	42,431	41	-17
Buy CNY with settlement between 3 months and 1 year	7.97	7.94	139,973	116,127	312	263
Total					-4,233	1,822

Time differences between the settlement of the forward contracts and the sale and purchase contracts are anticipated by the use of foreign currency bank accounts or the rollover of forward contracts. The translation risk on financial instruments, when the euro will decrease with 10% compared to all other currencies, with all other variables held constant, would be expected to have an influence of € 3.6 million negative on the result before tax (2017: € 2.5 million positive). The foreign currency forward contracts are taken into account in this calculation. The impact of a decrease of the euro on the shareholders' equity is larger because of the net investments in foreign subsidiaries with another functional currency. The impact of this is approximately € 22.6 million positive (2017: € 17.9 million positive). An increase of the euro with 10% will have the opposite influence, namely a negative influence of € 3.6 million on the result before tax and a negative influence of € 22.6 million on equity.

Price risk

An important raw material for TKH is copper. The price risk of copper is limited by a continuously monitoring of sales prices against the development of the purchase price where price changes are passed on to customers. Important raw materials such as copper, steel, aluminum and PVC are purchased with forward delivery contracts, to reduce the price risk on the sale of finished products, provided that:

- a sales contract with a fixed price has been entered into,
- delivery will not take place within one month, and
- an important quantity is required for production.

Next to physical purchases on long-term against a fixed price in advance, TKH made limited use of derivatives to hedge price risks on free inventories and to fix purchase prices of copper regarding large sales orders with delivery times exceeding one month, if not covered by a long-term purchase.

A decrease of the copper price with 10% would have a negative impact of approximately € 2.6 million on the result (2017: € 3.6 million negative) if all other factors and conditions remain the same. This is caused by the free stock, for which price risk is not hedged, which will then be sold at a lower price.

On balance sheet date TKH has entered into the following derivatives for raw materials:

In thousands of euros (unless stated otherwise)

	Average contract rate		Quantity in metric tons			Fair value
	2018	2017	2018	2017	2018	2017
Cash flow hedges						
Buy Copper with settlement within 3 months	4.60	5.41	701	536	4	73
Buy Copper with settlement between 3 months and 1 year	4.89	5.24	1,397	1,472	-204	545
Buy Copper with settlement between 1 and 3 years	4.61	5.22	163	993	-169	1,598
Total					-369	2,216

Credit risk

The financial assets of the group mainly consist of cash and cash equivalents, trade receivables, contract assets and other receivables. The credit risk for cash and cash equivalents is outstanding at major international system banks. The credit risks mainly relate to trade receivables and contract assets. However, it concerns a risk that is spread over a large number of customers that operate in several countries and in different markets. At balance sheet date there was no concentration of credit risk for material amounts. Part of the risk is insured at credit insurance companies. In addition, part of the risk is transferred to factoring companies. The credit risks insurances and factoring is in particular related to receivables on customers in the sub-segments connectivity systems and manufacturing systems. These customers are mainly located in the Netherlands, France, Germany and Asia. In addition, for large projects to foreign customers bank guarantees, advanced payments (towards a bank guarantee) or confirmed irrevocable 'Letter of Credit' are used. The maximum exposure to credit risk is represented by the carrying amounts of contract assets and financial assets that are recognized in the balance sheet, including derivatives with a positive market value.

An impairment analysis is performed at each balance sheet date, whereby the expected credit losses are calculated using a provision matrix. The percentages in the provision matrix are initially based on historical losses for various customer segments (geographic region, customer type, rating and coverage by, for example, credit insurance). The historical credit risk percentages in the matrix are then adjusted with forward-looking information. If the predicted economic conditions are expected to deteriorate, which may lead to an increase in the number of defaults, the historical credit risk rates will be adjusted. On each reporting date, the historical observed credit risk percentages are updated and changes in estimates are analyzed. The assessment of the correlation between historical observed credit risk percentages, predicted economic conditions and expected credit losses is a management estimate. The actual future credit losses may differ.

Below is shown the age of the trade receivables and contract assets and the expected credit risk.

In thousands of euros	Not overdue	Up to 30 days	31 - 60 days	61 - 90 days	91 - 180 days	181 - 365 days	Older than 365 days	31-12-2018 Total
Book value	260,416	45,826	10,651	5,097	5,106	6,374	8,711	342,181
Expected credit loss rate	0.1%	0.5%	1.2%	1.7%	8.3%	15.6%	67.5%	
Loss allowance	233	213	132	87	424	993	5,883	7,965

In thousands of euros	Not overdue	Up to 30 days	31 - 60 days	61 - 90 days	91 - 180 days	181 - 365 days	Older than 365 days	31-12-2017 Total
Book value	209,515	34,130	10,764	3,627	10,683	5,393	8,703	282,815
Expected credit loss rate	0.1%	0.9%	2.1%	4.7%	10.4%	21.8%	68.4%	
In thousands of euros	228	295	223	171	1,115	1,177	5,951	9,160

There are no significant overdue account receivables that are not largely covered by insurances or guarantees or for which no provision has been recognized. The movement of the allowance for doubtful debts is as follows:

In thousands of euros	2018	2017
Balance at 1 January	9,160	7,989
IFRS 9 restatement	15	
Restated balance at 1 January	9,175	7,989
(Releases) / additions	-258	2,461
Acquisitions	60	
Withdrawal	-1,043	-1,229
Exchange differences	31	-61
Balance at 31 December	7,965	9,160

22 CONTINGENT LIABILITIES

Framework agreements have been concluded with some suppliers for the availability of some important raw materials. There are no long-term purchase obligations.

In thousands of euros	2018	2017
Bank guarantees provided to third parties	75,720	61,187
Purchase obligations arising from orders for tangible non-current assets	3,975	4,637
Operational lease and rent obligations		
Operational lease and rent payments recognized as an expense during the year	20,014	18,385
At balance sheet date TKH has the following outstanding operational lease and rent obligations:		
Expiry date within 1 year	17,969	18,179
Expiry date between 1 and 5 years	34,168	41,372
Expiry date after 5 years	28,451	31,564
Total	80,588	91,115

The investment obligations for tangible non-current assets mainly relate to investments in the expansion of the production capacity of fibre optics cables in Haaksbergen (the Netherlands) and Nanjing (China). Both will be available in the course 2019.

TKH has obligations regarding the operating leases of cars and the rental of business premises in particular.

Claims

TKH and its subsidiaries are involved in a number of legal proceedings. According to the information currently available and legal advice received, TKH expects any adverse effects from the outcome of these legal proceedings to be adequately covered by other provisions or insurance. Claims against insurers have been recorded as receivables.

23 INFORMATION BY SEGMENT

TKH Group is organized in three business segments: Telecom Solutions, Building Solutions and Industrial Solutions. The Solutions are based on the product/market combinations in which the TKH subsidiaries operate. In the overview of subsidiaries, as part of the 'Other information', is shown in

which of the Solutions the different subsidiaries operate. In the annual report, a detailed overview of the activities by business segment is shown. TKH reports its primary business segment information based on these Solutions.

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

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

TKH has no individual customers representing 10% or more of the consolidated turnover. Other revenues relate to other services provided to third parties, such as rental, insurance payments and charged costs.

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

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

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

24 PERSONNEL EXPENSES

In thousands of euros	2018	2017
Wages and salaries	291,805	271,794
Share-based payments	2,991	3,013
Social insurance contributions	48,670	47,231
Pension costs	13,402	11,964
Temporary labor	32,815	29,556
Capitalized development costs	-24,618	-24,607
Other personnel expenses	15,705	14,840
Personnel expenses	380,770	353,791

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

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

² Non-current assets are excluding the deferred tax assets.

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

25 SHARE-BASED PAYMENTS

Stock option scheme settled in equity instruments

Option rights to (depository receipts of) ordinary shares of TKH are granted to the management of the subsidiaries. The rights can never be exercised until after the publication of the company's annual results three calendar years following the year in which the rights were granted, and have an exercise period of two years. Partly to avoid abuse of inside knowledge, the conditions for participation have been laid down in an internal regulation and have been accepted in writing by the participants.

Executive Board

No option rights are granted to the members of the Executive Board and the Supervisory Board. In 2018, H.J. Voortman has been awarded 8,400 options before being appointed as a member of the Executive Board. The movement and balance of the outstanding option rights granted to him is as follows:

Year of allocation	Exercise rate in €	Number at 01-01-2018	Granted during the year	Expired during the year	Elapsed during the year	Exercised during the year	Number at 31-12-2018	Exercise period
2015	31.44	12,000					12,000	2018-2020
2016	33.92	12,000					12,000	2019-2021
2017	41.19	7,350					7,350	2020-2022
2018	52.25		8,400				8,400	2021-2023
Total		31,350	8,400	0	0	0	39,750	

Other option beneficiaries

The movement and balance of the outstanding option rights granted to the other option beneficiaries are as follows:

Year of allocation	Exercise rate in €	Number at 01-01-2018	Granted during the year	Expired during the year	Elapsed during the year	Exercised during the year	Number at 31-12-2018	Exercise period
2013	19.76	31,333		-500		-30,833	0	2016-2018
2014	25.30	74,370				-21,458	52,912	2017-2019
2015	31.44	278,092				-115,117	162,975	2018-2020
2016	33.92	328,035			-2,700		325,335	2019-2021
2017	41.19	234,425			-1,050		233,375	2020-2022
2018	52.25		241,424		-840		240,584	2021-2023
Total		946,255	241,424	-500	-4,590	-167,408	1,015,181	

At the end of 2018, the company owns 819,056 purchased (depository receipts of) shares to cover the option rights. These (depository receipt of) shares have been purchased against an average share price of € 40.15. The total purchase value is € 32,886,438. The average share price on the date at which the share options were exercised during the financial year was € 52.58. The options were granted during the financial year on 6 March 2018. The estimated fair value of the options granted in 2018 is € 1,753,764. The fair value was determined on the basis of a binomial valuation model with the following assumptions:

	2018	2017
Fair value at the date of allocation (in €)	7.02	5.49
Expected volatility	23.5%	23.7%
Expected dividend	3.0%	3.0%
Risk free rate	0.27%	0.06%
Expected period to expiry of the option (in years)	4.0	4.0

The current restrictions on the exercise of the options, the chances that employees will leave the company and possible personal considerations of option holders have been taken into account for the expected expiry period of the options. TKH has a reported total charge of € 1,355,150 (2017: € 1,166,850) for these share-based payments which have been settled in equity instruments.

Other share-based payments

Based on the share scheme, (depository receipts of) shares have been allotted free of charge to the members of the Executive Board. During 2018 Mr J.M.A. van der Lof was allotted 8,562 (depository receipts of) shares, Mr E.D.H. de Lange 6,421, and Mr A. Dehn 5,261 (depository receipts of) shares related to the performance for the year 2017. At the same time, the Executive Board members purchased respectively 8,562, 6,421 and 5,261 (depository receipts of) shares at the actual share price of € 52.43, all in accordance with the regulation of the share scheme. As a result of the share-based payments, TKH has recognized a total charge of € 1,636,000 (2017: € 1,685,000) in the statement of profit and loss.

26 OTHER OPERATING EXPENSES

Other operating expenses include overhead, selling, accommodation and manufacturing expenses.

27 DEPRECIATION

In thousands of euros	2018	2017
Depreciation of tangible non-current assets	28,101	24,482
Result on disposal of tangible non-current assets	-193	292
Depreciation	27,908	24,774

28 AMORTIZATION

In thousands of euros	2018	2017
Amortization of intangible non-current assets	23,995	21,220
Amortization of intangible non-current assets from acquisitions as a result of 'Purchase Price Allocations'	16,318	15,246
Amortization	40,313	36,466

29 IMPAIRMENT

In thousands of euros	Notes	2018	2017
Impairment of intangible non-current assets	3	1,521	1,206
Impairment of tangible non-current assets	4	22	-67
Onerous contracts			615
Impairment		1,543	1,754

The impairment relating to onerous contracts in 2017 related to a lease for vacant spaces. The write-downs recorded in 2018 relating to onerous contracts with customers have been recorded in the operating expenses (see note 14).

31 FINANCIAL INCOME AND EXPENSES

In thousands of euros	2018	2017
Exchange and translation differences, including the effect of realized cash flow hedges	-291	-1,190
Amortized transaction costs	-236	-200
Interest costs in defined benefit plans	-30	-17
Interest expenses	-7,782	-8,109
Fair value gain on debtinstruments at fair value through P&L	205	
Interest income from debtinstruments at fair value through P&L	224	
Interest income	1,186	1,459
Financial income and expenses	-6,724	-8,057

30 RESEARCH AND DEVELOPMENT COSTS

The total operating expenses over the financial year include the following items:

In thousands of euros	2018	2017
Research and development costs	60,763	59,863
Less: Capitalized development costs	-30,146	-30,662
Add: Amortization of development costs	17,689	14,823
Add: Impairment on capitalized development costs	1,441	1,206
Research and development costs accounted for in the profit and loss account	49,747	45,230
Government subsidies for education and training costs	-1,686	-1,117

32 TAX

In thousands of euros	Notes	2018	2017 ¹
Current tax		31,236	27,067
Adjustments for previous years		-312	11
Deferred tax	16	-1,263	-6,647
Total tax on profit		29,661	20,431

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

The taxes that are included directly in the statement of other comprehensive income are shown below.

In thousands of euros	Notes	2018	2017
Deferred taxes on revaluation of cash flow hedges	16	-2,175	1,784
Deferred taxes on actuarial gains and losses	16	81	-6
Total tax on other comprehensive income		-2,094	1,778

The tax burden is calculated at the prevailing tax rates in each country. The tax burden over the year can be reconciled with the profit before tax as follows:

In thousands of euros (unless stated otherwise)

		2018		2017 ¹
Result before tax	138,397		107,961	
Tax calculated at the Dutch tax rate	34,599	25.0%	26,990	25.0%
Correction due to tax effect for:				
Tax participation exemption	312	0.2%	-1,596	-1.5%
Non-deductible expenses	698	0.5%	609	0.6%
Non-deductible interests	132	0.1%	103	0.1%
Untaxed gains	-140	-0.1%	-911	-0.8%
Advantages from tax facilities	-5,684	-4.1%	-4,568	-4.2%
Write off/recognition of deferred taxes	-655	-0.5%	-5,339	-4.9%
(Recognition)/derecognition of deferred tax asset for unused tax losses	1,697	1.2%	5,092	4.7%
Settlement of income tax returns for previous years	-312	-0.2%	11	0.0%
Differences in tax rates for foreign subsidiaries	-28	0.0%	-2,213	-2.0%
Change in statutory tax rate	-900	-0.7%	2,292	2.1%
Other tax benefits	-58	0.0%	-39	-0.2%
Effective tax burden	29,661	21.4%	20,431	18.9%

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

The benefits from the tax facilities mainly concern benefits from tax R&D facilities. These facilities mainly relate to the Netherlands (innovation box), Canada (SR&ED), Austria and China and reduce the effective tax burden. The not full recognition of the unused tax losses resulted in a € 1.7 million charge in 2018. This burden was compensated by a release of deferred tax liabilities, that had been accrued for future withholding taxes on dividends, and a tariff reduction in the Netherlands. With effect from 2020, the nominal corporate tax rate will drop from 25.0% to 22.55%. From 2021 the nominal tax rate in the Netherlands will drop further to 20.50%. As a result of this future tariff reduction, a partial release of the deferred tax liabilities of € 0.9 million is recognized in 2018.

In 2017, there was a tax benefit due to a change in the Dutch dividend tax legislation, for which a deferred tax liability was recognized. On the other hand, there was a tax charge of € 5.1 million because deferred tax assets on unused tax losses were not fully recognized. In addition, the reduction of tax rates in various countries, with the US tax reform having the greatest impact, resulted in a write-down of deferred tax assets (mainly related to unused tax losses). The US tax reform had on balance resulted in a one-off tax charge of € 1.8 million. Tax reforms in other countries resulted in a charge of € 0.5 million, with the total effect in 2017 of € 2.3 million due to tariff changes.

33 EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

In thousands of euros (unless stated otherwise)

	2018	2017 ¹
Weighted average number of (depository receipts of) shares (x 1,000)	42,010	42,057
Effect of share options (x 1,000)	293	340
Weighted average number of (depository receipts of) shares diluted (x 1,000)	42,303	42,397
Net profit	108,736	87,530
Less: Non-controlling interests	-185	-1,228
Net profit attributable to the shareholders of the company	108,551	86,302
Net profit	108,736	87,530
Amortization of intangible non-current assets from acquisitions	16,318	15,246
Taxes on amortization	-4,413	-4,130
Net profit before amortization	120,641	98,646
Less: Non-controlling interests	-185	-1,228
Net profit before amortization attributable to the shareholders of the company	120,456	97,418
Net profit before amortization	120,641	98,646
Restructuring costs		6,304
One-off income due to sale of Nedap shares		-5,837
Impairments	1,543	1,754
Change in value of financial liability for squeeze-out, earn-out and put options of shareholders of non-controlling interests	-520	-3,847
Tax impact on one-off expenses and benefits	-386	-2,015
One-off tax charge/(benefit)		1,817
Profit before amortization and one-off income and expenses	121,278	96,822
Less: Non-controlling interests	-185	-1,228
Net profit before amortization and one-off income and expenses attributable to the shareholders of the company	121,093	95,594
Ordinary earnings per share (in €)	2.58	2.05
Diluted earnings per share (in €)	2.57	2.04
Ordinary earnings per share before amortization and one-off income and expenses (x1€) ²	2.88	2.27
Ordinary earnings per share before amortization (x1€) ²	2.87	2.32

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

² Non IFRS compulsory disclosure

34 RELATED PARTIES

Trade transactions

During the year trade transactions with non-consolidated related parties have taken place. These transactions were concluded at market prices, taking into account discounts for volumes and the existing relationship between the parties. The following transactions with related parties occurred during the year:

In thousands of euros	Sold to		Bought from		Trade receivables		Trade payables	
	2018	2017	2018	2017	2018	2017	2018	2017
Shin-Etsu (Jiangsu) Optical Preform Co. Ltd.			18,801	18,026			3,729	3,231
INC Ltd.			3,144	2,683			188	
Speed Elektronik Vertrieb GmbH	292	274	149	93	-2		2	
Commend Australia Integrated Security and Communication Systems Pty Ltd.	705	710				190		
Commend AG (Switzerland)		1,887						
Commend Österreich GmbH		2,547			207	187		
NET Italia S.r.l.	178	503			224	352		
Total	1,175	5,921	22,094	20,802	429	729	3,919	3,231

Shareholdings of members of the Executive Board and the Supervisory Board

During the financial year J.M.A. van der Lof sold 17,124 (depository receipts of) shares, E.D.H. de Lange sold 12,842 (depository receipts of) shares and A.E. Dehn sold 5,261 (depository receipts of) shares at a stock price of € 52.43, in accordance with the share scheme. In addition, J.M.A. van der Lof, E.D.H. de Lange and A.E. Dehn purchased under the share scheme respectively 8,562, 6,421 and 5,261 (depository receipts of) shares at a stock price of € 52.43. Among the members of the Executive Board, Mr J.M.A. van der Lof owned 143,147 (depository receipts of) shares, E.D.H. de Lange owned 91,468 (depository receipts of) shares and H.J. Voortman owned 11,447 (depository receipts of) shares at the end of 2018. Of the Supervisory Board, A. De Proft owned 2,000 (depository receipts of) shares at the end of 2018.

Remuneration key-management

The remuneration payable to the members of the Executive Board comprises a basic salary (TVI), pension and a variable element, comprising an annual performance bonus (STI) and a long-term bonus (LTI) scheme entailing a share scheme. The remuneration report is included in the Report of the Supervisory Board.

Executive Board

In thousands of euros	Total regular income (TRI)		Bonus (STI)		Share scheme (LTI)		Pension		Compensation for pension premium		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017		
J.M.A. van der Lof MBA	559	550	279	303	581	804	35	32	131	119	1,585	1,808
E.D.H. de Lange MBA	419	412	209	227	436	477	15	15	45	45	1,124	1,176
H.J. Voortman ¹	226		113		235		10		22		606	0
A.E. Dehn	114	338		174		404	22	21	12	46	148	983
Total remuneration	1,318	1,300	601	704	1,252	1,685	82	68	210	210	3,463	3,967

¹ Appointed as a member of the Executive Board at the General Meeting on 3 May 2018. The remuneration presented above is from the date of appointment.

Former Executive Board member

In addition to the remuneration included in the previous table as a member of the Executive Board, Mr Dehn received the following amounts in the 2018 financial year: TVI during the employment contract period from 3 May 2018 to 31 December 2018 being € 224,000, a payment for the termination of the employment contract on 31 December 2018 of € 338,000, a re-location reimbursement of € 25,000 and a final settlement of pension rights for the period 2011 up to and including 2017 of € 104,000. Mr Dehn was not entitled to an STI and/or LTI payment for 2018.

Supervisory Board

The remuneration of the Supervisory Board is as follows:

In thousands of euros	Fixed fee Committee fee		Total	
			2018	2017
H.J. Hazewinkel, chairman up to 3 May 2017			0	27
A.J.P. de Profijt MSc, chairman as from 3 May 2017	47		47	43
M.E. van Lier-Lels, up to 3 May 2018	15	3	18	44
P.P.F.C. Houben	36	8	44	44
R.L. van Iperen	36	7	43	42
C.W. Gorter, as from 3 May 2017	36	6	42	28
J.M. Kroon, as from 3 May 2017	36	4	40	24
Total remuneration	206	28	234	252

35 ACQUISITIONS

During 2018 TKH acquired the following companies:

Name subsidiary	Country	Legal ownership and control	Consolidation as from	Operating segment
Akutron LLC	Ukraine	100.0%	1 January 2018	Connectivity systems (Industrial)
Lakesight Technologies Holding Srl	Germany and Italy	100.0%	16 October 2018	Vision & security systems (Building)
Ognios GmbH	Austria	100.0%	31 December 2018	Vision & security systems (Building)

In January 2018, TKH acquired all shares of Akutron LLC, based in Kiev (Ukraine). Akutron manufactures medical and industrial cable assemblies and related products. The company strengthens the production capacity of TKH subsidiary Ernst & Engbring with specific competences in the field of assembly. The activities of Akutron are part of the TKH sub-segment industrial connectivity systems, within the business segment Industrial Solutions. The company realizes a turnover of approximately € 1 million with 60 FTEs.

On 16 October 2018, TKH reached an agreement on the acquisition of all shares of Lakesight Technologies ('Lakesight'), a global player for innovative high-end vision technology for imaging systems. Lakesight, with its headquarters in Germany, consists of three operating entities: Chromasens GmbH (Germany), Mikrotron GmbH (Germany) and Tattile Srl (Italy). The company is mainly active in the industrial and mobility market and offers machine vision solutions for inspection, measurement and process control.

Its Mobility division provides cameras and solutions for intelligent traffic systems that are critical for safety applications, such as highway and tunnel monitoring, as well as for tolling, traffic law enforcement, access control to parking lots and other public transportation. Lakesight solutions are crucial in ensuring quality standards, improving energy and material efficiency, reducing transport-related emissions and pollution, thereby providing sustainable environmental benefits. With this, Lakesight has a broad portfolio of high-quality vision technologies that fit well with TKH's vision and security technologies. The combination will generate synergy and accelerate growth, especially in the vertical growth markets Machine Vision and Tunnel & Infra defined by TKH. The joint technical expertise and know-how will support TKH's strategy in the area of technology leadership. Lakesight realizes an annual turnover of approximately € 45 million with 169 FTEs. Lakesight's activities will strengthen the sub-segment vision & security of TKH in the business segment Building Solutions. TKH financed the transaction from a bridging credit facility and existing resources.

On 27 December 2018, TKH acquired the shares of Ognios GmbH from Austria. Ognios has developed a high-quality modular mission critical communication system for the Marine & Offshore industry in particular, but it can also be used for other sectors. Ognios will benefit from synergies in the TKH group, mainly with the Commend group, which will largely account for sales and production. The activities of Ognios will be part of the TKH sub-segment vision & security systems, within the business segment Building Solutions. The company employs 19 FTEs.

The combined net assets acquired are comprised as follows:

In thousands of euros	Lakesight Technologies Holding Srl			Other			Total acquisitions 2018			Total acquisitions 2017		
	Book value	Adjustments	Fair value	Book value	Adjustments	Fair value	Book value	Adjustments	Fair value	Book value	Adjustments	Fair value
Intangible non-current assets	4,239	68,741	72,980	678	4,011	4,689	4,917	72,752	77,669	19	3,872	3,891
Tangible non-current assets	1,722		1,722	848		848	2,570		2,570	533	1,455	1,988
Loans and receivables			0	17		17	17		17			0
Inventories	7,822		7,822	487		487	8,309		8,309	729		729
Receivables	9,498		9,498	339		339	9,837		9,837	959		959
Cash and cash equivalents	2,926		2,926	714		714	3,640		3,640	352		352
Pensions	-174		-174			0	-174		-174			0
Provisions	-130		-130	-52		-52	-182		-182	-239		-239
Deferred tax	253	-18,904	-18,651	2	903	905	255	-18,001	-17,746	112	-1,405	-1,293
Borrowings	-24,526		-24,526	-10,501		-10,501	-35,027		-35,027	-4		-4
Current liabilities	-7,351		-7,351	-339		-339	-7,690		-7,690	-952		-952
Acquired net assets	-5,721	49,837	44,116	-7,807	4,914	-2,893	-13,528	54,751	41,223	1,509	3,922	5,431
Goodwill paid			74,528			4,626			79,154			742
Purchase price			118,644			1,733			120,377			6,173
Purchase price still due						-508			-508			
Cash and cash equivalents acquired			-2,926			-714			-3,640			-352
Purchase price paid			115,718			511			116,229			5,821

Besides Lakesight Technologies, the acquisitions are presented together due to the limited size of Akutron and Ognios. The fair value adjustments mainly relate to acquired intangible non-current assets such as intellectual property. The paid goodwill is attributable to the knowledge and experience of the workforce, expected synergy benefits due to intensification of the cooperation within the TKH Group and the alignment with the strategic development of TKH. The goodwill recognized from the acquisitions is not tax deductible. The purchase price was fully paid in cash. The acquisition costs recognized in

the operating result amount to € 1.8 million and relate to external costs for advice on legal advice, due diligence, insurance of guarantees and bridge financing. In 2018 the acquired and consolidated companies contributed with € 9.6 million turnover and € 0.1 million net result to the turnover and net result of TKH. If the acquisitions had taken place on 1 January 2018, the turnover of TKH would have amounted to € 1,674.5 million and the net profit € 109.0 million. The mentioned net result takes into account the amortization of intangible non-current assets related to the acquisition.

36 NON-CASH TRANSACTIONS

There were no material non-cash transactions.

37 EVENTS AFTER BALANCE SHEET DATE

No events of fundamental significance for insight into the financial statements and the preceding period occurred after balance sheet date.

38 SERVICE FEES PAID TO EXTERNAL AUDITORS

The service fees paid to the external auditor EY, recognized as other operating expenses, can be specified as follows:

In thousands of euros	Ernst & Young Accountants LLP (Netherlands)		Other parts of EY		Total	
	2018	2017	2018	2017	2018	2017
Audit of the financial statements	1,149	760	600	524	1,749	1,284
Other auditing assignments			3	3	3	3
Tax consultancy			21	29	21	29
Servicecosts external auditors	1,149	760	624	556	1,773	1,316

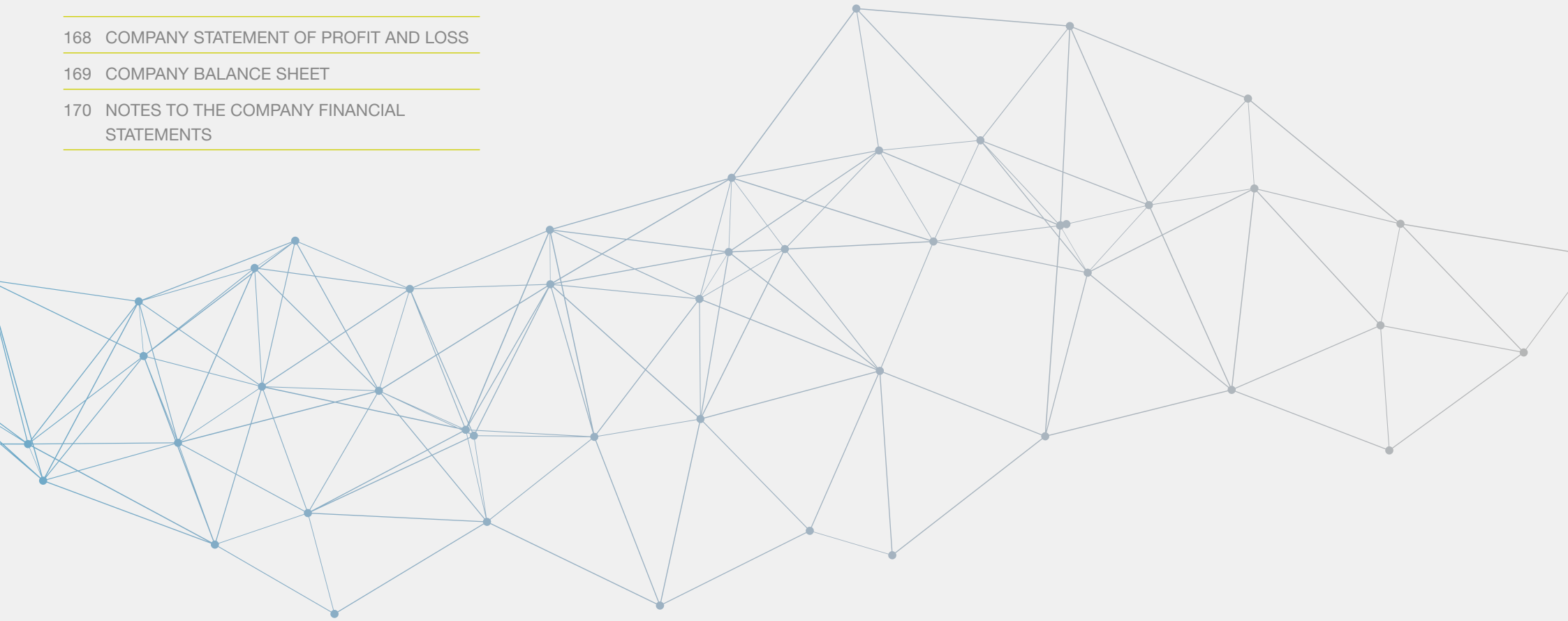
The increase in the costs of the external auditor EY is related to the growth of TKH in recent years, the transition of the statutory audit of a number of TKH companies to EY, as well as additional work by the auditor as a result of the implementation of new IFRS standards.

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COMPANY STATEMENT OF PROFIT AND LOSS

In thousands of euros	Notes	2018	2017 ¹
Net turnover	14	8,691	2,330
Wages and salaries	15	9,228	8,485
Social insurance contributions		1,234	882
Depreciation		323	323
Other operating expenses		9,860	7,300
Total operating expenses		20,645	16,990
Operating result		-11,954	-14,660
Financial income		11,961	10,502
Financial expenses		-8,984	-8,725
Profit from disposal of available-for-sale financial assets			5,837
Exchange differences		182	-31
Change in value of financial liability for earn-out and put-options of shareholders of non-controlling interests		520	158
Result before tax		-8,275	-6,919
Tax on profit	16	-780	-2,315
Company result		-7,495	-4,604
Share in result of participations		116,046	90,906
Net result		108,551	86,302

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

COMPANY BALANCE SHEET

As of 31 December before profit appropriation

In thousands of euros	Notes	2018	2017 ¹
ASSETS			
Non-current assets			
Intangible non-current assets	2	131,302	50,175
Tangible non-current assets	3	692	745
Financial non-current assets	4	1,074,943	1,005,701
Deferred tax assets	5	775	1,917
Total non-current assets		1.207.712	1,058,538
Current assets			
Receivables on subsidiaries		106,184	42,346
Other receivables	6	2,062	10,015
Cash and cash equivalents	12	5,331	7,231
Total current assets		113.577	59,592
Total assets		1.321.289	1,118,130

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

In thousands of euros	Notes	2018	2017 ¹
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		10,709	10,709
Share premium		85,021	85,021
Legal reserve		64,123	55,133
Revaluation reserve		188	188
Translation reserve		8,337	9,225
Cashflow hedge reserve		-3,462	2,441
Retained earnings		372,992	345,338
Unappropriated profit		108,551	86,302
Total shareholders' equity	7	646.459	594,357
Provisions			
Deferred tax liabilities	5	1,265	1,351
Financial liabilities	11	468	2,470
Provisions	10	3,010	1,411
Total provisions		4.743	5,232
Non-current liabilities			
Non-current liabilities		237,292	184,123
Total non-current liabilities		237.292	184,123
Current liabilities			
Borrowings	12	166,030	42,072
Payables to group companies		255,163	275,582
Financial liabilities	11	4,670	11,624
Other current liabilities		6,932	5,140
Total current liabilities		432.795	334,418
Total equity and liabilities		1.321.289	1,118,130

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 ACCOUNTING PRINCIPLES

For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its separate financial statements, TKH makes use of the option provided in Article 2:362 sub 8 of the Dutch Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result for the separate financial statements of TKH are the same as those for the consolidated financial statements. For a description of these accounting principles, reference is made to the accounting principles of the consolidated financial statements.

Investments in subsidiaries are valued at net asset value. The net asset value is determined on basis of the valuation principles, as described in note 1 of the consolidated financial statements. The net asset value of subsidiaries consists of cost price, exclusive goodwill, the share of TKH in the sum of the assets, liabilities and provisions of the subsidiary, plus the share in the result of the subsidiary since the takeover that is attributed to TKH, less the received dividends.

The expected credit losses as prescribed in *IFRS 9 Financial Instruments* on receivables on group companies are included in the carrying amount of the participations.

2 INTANGIBLE NON-CURRENT ASSETS

In thousands of euros	Goodwill	
	2018	2017
Historical cost at 1 January	51,865	50,235
Accumulated amortization and impairment losses	1,690	1,690
Book value at 1 January	50,175	48,545
Acquisitions	81,261	300
Exchange differences	-134	1,330
Book value at 31 December	131,302	50,175
Accumulated amortization and impairment losses	1,690	1,690
Historical cost at 31 December	132,992	51,865

3 TANGIBLE NON-CURRENT ASSETS

In thousands of euros	Other equipment	
	2018	2017
Historical cost at 1 January	2,398	2,224
Accumulated depreciation and impairments	1,653	1,462
Book value at 1 January	745	762
Purchases	301	383
Disposals	-31	-77
Depreciation	-323	-323
Book value at 31 December	692	745
Accumulated depreciation and impairments	1,712	1,653
Historical cost at 31 December	2,404	2,398

4 FINANCIAL NON-CURRENT ASSETS

In thousands of euros	Consolidated subsidiaries		Other associates		Available-for-sale financial assets		Receivables on subsidiaries		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Balance at 1 January	485,158	420,594	9,771	9,312	0	11,302	510,772	531,560	1,005,701	972,768
IFRS 9 restatement	-28								-28	0
IFRS 15 restatement		1,307							0	1,307
Restated balance at 1 January	485,130	421,901	9,771	9,312	0	11,302	510,772	531,560	1,005,673	974,075
Acquisition and/or incorporation of subsidiaries and associates	96,068	2,505							96,068	2,505
Disposals						-12,097			0	-12,097
Capital contribution	132,373	7,375					-118,297		14,076	7,375
Result	114,159	89,355	1,887	1,077					116,046	90,432
Revaluation of available-for-sale financial assets						795			0	795
Dividend received	-60,371	-52,701	-320	-160					-60,691	-52,861
Change in cash flow hedge reserves	-5,859	3,392							-5,859	3,392
Liquidation	-240								-240	0
Disposals within the group				37					0	37
Loans granted less repayments							-91,518	8,153	-91,518	8,153
Actuarial gains/(losses) from defined benefit plans	576	22							576	22
Reclassification provision subsidiaries and associates	-10,905	26,377					12,498	-28,941	1,593	-2,564
Exchange differences	-717	-13,068	-64	-495					-781	-13,563
Balance at 31 December	750,214	485,158	11,274	9,771	0	0	313,455	510,772	1,074,943	1,005,701

In 2018, the company acquired a direct interest in a number of subsidiaries through a transfer of the shares within the group structure, in addition to the acquisitions. This explains the relatively high acquisition in the financial year. An overview of directly and indirectly held interests in subsidiaries is included in 'Other Information'. In addition, a number of loans to subsidiaries have been contributed in capital. This resulted in a reclassification from receivables to consolidated subsidiaries. Concerning the receivables on subsidiaries, an at arm's length interest rate is charged with a credit risk premium ranging from 1.2% to 2.8%.

5 DEFERRED TAXES

The deferred tax assets and liabilities are related to the following items:

In thousands of euros	Undistributed intragroup profits	Tax write-down of loans	Unused tax losses and credits	Financial instruments	Total
Balance at 31 December 2016	-304	-791	1,353	649	907
(Charge)/credit to other comprehensive income				-547	-547
(Charge)/credit to profit or loss	-560	752	14		206
Balance at 31 December 2017	-864	-39	1,367	102	566
IFRS 9 restatement		261			261
Restated balance at 1 January 2018	-864	222	1,367	102	827
(Charge)/credit to other comprehensive income				14	14
(Charge)/credit to profit or loss	-401	437	-1,367		-1,331
Balance at 31 December 2018	-1,265	659	0	116	-490

Certain deferred tax assets and liabilities are offset in accordance with the principles provided in IFRS.

The deferred taxes are recognized in the balance sheet as follows:

In thousands of euros	2018	2017
Deferred tax assets stated under non-current assets	775	1,917
Deferred tax liabilities stated under non-current liabilities	-1,265	-1,351
Deferred taxes	-490	566

6 OTHER RECEIVABLES

In thousands of euros	2018	2017
Taxes and social security premiums	146	180
Other receivables	1,916	9,835
Other receivables	2,062	10,015

7 EQUITY

For the movement schedule is referred to the consolidated statement of changes in group equity. The company only movement schedule for equity, excluding the movement of the non-controlling interests, is the same.

Authorized capital

		2018	2017
	x1,000	€ '000	€ '000
The authorized capital consists of:			
Ordinary shares	59,984		
Cumulative preference financing shares	10,000		
Convertible cumulative preference financing shares	10,000		
Cumulative preference protective shares	60,000		
Each nominal € 0.25	139,984	34,996	34,996
Priority share	4		
Each nominal € 1.00	4	4	4
Authorized capital		35,000	35,000
Of which not issued		24,291	24,291
Issued capital ¹		10,709	10,709

¹ Concerns 4,000 priority and 42,821,763 (depository receipts of) shares.

The issued capital did not change during 2018. The registered ordinary shares, with the exception of the registered shares in the company, have been transferred to Stichting Administratiekantoor TKH Group ('Trust Foundation'), which issues depository receipts of shares to the ultimate capital providers. Stichting Administratiekantoor is the party entitled to the shares and also exercises the voting right, unless it has granted power of attorney to the holders of the depository receipts. The holders of depository receipts are entitled to receive a power of attorney to cast a vote on the shares corresponding to the depository receipts they own. Stichting Administratiekantoor remains entitled to vote for the shares for which the holders of depository receipts are not present or represented at the meeting. The aforementioned power of attorney may be limited, excluded or revoked by the executive committee of Stichting Administratiekantoor in various situations specified in the law (see also Corporate Governance). In that case Stichting Administratiekantoor may (again) exercise the voting right for all shares for which depository receipts have been issued. The relationship between Stichting Administratiekantoor and the holders of depository receipts of shares is governed by the administrative conditions. The protection afforded by the use of depository receipts is based on the 1% rule. The depository receipts may be exchanged for ordinary shares but not for more than 1% of the total issued capital in the form of ordinary shares. This total includes shares owned indirectly as well as directly. However, this does not apply to the transfer of ordinary shares to the company itself. Every transfer of preference financing shares, convertible preference

financing shares and preference protective shares must be approved by the Executive Board. The Executive Board may only grant its approval with the approval of the Supervisory Board.

No special rights are attached to the priority shares.

The company has granted the Stichting Continuïteit TKH ('Continuity Foundation') an option to take preference protective shares for up to a maximum of 50% of the sum of the other outstanding shares at the time that the preference protective shares are issued or 100% of the sum of the other outstanding shares at the time that the preference protective shares are issued if the restriction on the cancellation option lapses, which will occur if and when the Executive Board of the company so decides and files a statement to that effect with the Chamber of Commerce.

Share premium reserve

The share premium reserve is fully exempt from Dutch taxes on distribution.

Legal reserve

The legal reserve relates to:

In thousands of euros	2018	2017
Capitalized development costs	63,300	53,705
Legal reserve for participations	823	1,428
Legal reserve	64,123	55,133

The legal reserve is not available for distribution to the company's shareholders.

Revaluation reserves

The revaluation reserves are not available for distribution to the company's shareholders.

Revaluation reserve for assets held for sale

The revaluation reserve for assets held for sale is not available for distribution to the company's shareholders.

Hedging and translation reserve

The hedging and translation reserves are statutory reserves and not available for distribution to the company's shareholders.

8 DIVIDEND

TKH recognizes a liability to pay a dividend when the distribution is no longer at the discretion of the company. A dividend payment is due under Dutch law if approved by the shareholders. At that moment, the amount is recognized directly in equity. At the General Meeting of shareholders 2018 the dividend for 2017 was declared at € 1.20 per (depository receipt of) ordinary share. The dividend was paid in cash. The dividend on the priority shares was declared at € 0.05 per share. The total amount of dividends paid in 2018 was € 50,435,126 and this amount was charged to the retained earnings. After 31 December 2018, the Executive Board has proposed a dividend. With regard to Article 33 of the Articles of Association, the Executive Board proposes to the holders of (depository receipts of) ordinary shares a dividend of € 1.40 per (depository receipt of) ordinary share. The dividend proposal has not been recognized in the balance sheet and does not impact the corporate income tax.

9 SHARE-BASED PAYMENTS

The share-based payments are disclosed in note 25 of the consolidated financial statements.

10 OTHER PROVISIONS

In thousands of euros	2018	2017
Liability for subsidiaries with negative equity	2,865	1,272
Other long-term provisions	145	139
Total of other long- and short-term provisions	3,010	1,411

For more background details about other long-term provisions see note 14 of the consolidated financial statements.

11 FINANCIAL LIABILITIES

In thousands of euros	Earn-out and squeeze-out	Putoptions of shareholders of non controlling interests	Total
Balance at 1 January 2018	1,124	12,970	14,094
Change in value through the profit and loss account	-656	136	-520
Purchases	508		508
Payment for acquisitions and non-controlling interests from previous years		-8,944	-8,944
Balance at 31 December 2018	976	4,162	5,138

For more details about the financial liabilities see note 15 of the consolidated financial statements.

12 NET INTEREST BEARING DEBT

In thousands of euros	2018	2017
Liabilities reported under non-current liabilities	238,000	185,000
To be amortized transaction costs for the credit facility	-708	-877
Borrowings reported under current liabilities	166,030	42,072
Cash and cash equivalents	-5,331	-7,231
Net interest bearing debt	397,991	218,964

For more details about the facilities, conditions and securities see notes 11, 18, 19 and 21 of the consolidated financial statements.

13 CONTINGENT LIABILITIES

Under Article 2:403, paragraph 1 sub f of the Dutch Civil Code the company has assumed joint and several liability for debts arising from the legal actions for all Dutch subsidiaries of which TKH owns directly or indirectly 100% of the shares. The declarations to that effect have been deposited for inspection at the office of the Chamber of Commerce in the place where the legal entity for which the guarantee was given has its registered office.

The company is formally a guarantor for a total sum of € 34.3 million (2017: € 34.5 million) for bank credit and bank guarantee facilities provided to a number of foreign participating interests. This facility was called on for a sum of € 2.4 million (2017: € 1.6 million) at the end of 2018.

The company and the majority of its 100% owned Dutch subsidiaries form a tax group for the corporate income tax. Consequently, the company is liable for the income taxes of these subsidiaries.

14 TURNOVER

The turnover is related to the charged head office costs in the year for services provided to subsidiaries of the company.

15 OPERATING EXPENSES

The share-based payments and remuneration of key management are included in notes 25 and 34 of the consolidated financial statements.

16 TAX

In thousands of euros	Notes	2018	2017
Current tax		-2,023	-2,109
Adjustments for previous years		-88	
Deferred tax	5	1,331	-206
Total tax on profit		-780	-2,315

The reconciliation of the tax expense in the year with the result before tax is as follow:

In thousands of euros (unless stated otherwise)	2018	2017
Result before tax	-8,275	-6,919
Tax calculated at the Dutch tax rate	-2,069	-1,730
Correction due to tax effect for:		
Non-deductible expenses	966	682
Untaxed gains	-130	-39
Write off/recognition of deferred taxes	139	
Recognition of deferred tax asset for unrecognized unused tax losses		-14
Settlement of income tax returns for previous years	-88	
Taxes on undistributed profits of foreign subsidiaries	402	-1,214
Effective tax burden	-780	-2,315

17 SIGNATURE OF THE FINANCIAL STATEMENTS

Haaksbergen, 4 March 2019

Executive Board

J.M.A. van der Lof MBA, *chairman*
E.D.H. de Lange MBA
H.J. Voortman MSc

Supervisory Board

A. De Proft MSc, *chairman*
J.M. Kroon MBA, *vice-chairman*
P.P.F.C. Houben
R.L. van Iperen
C.W. Gorter

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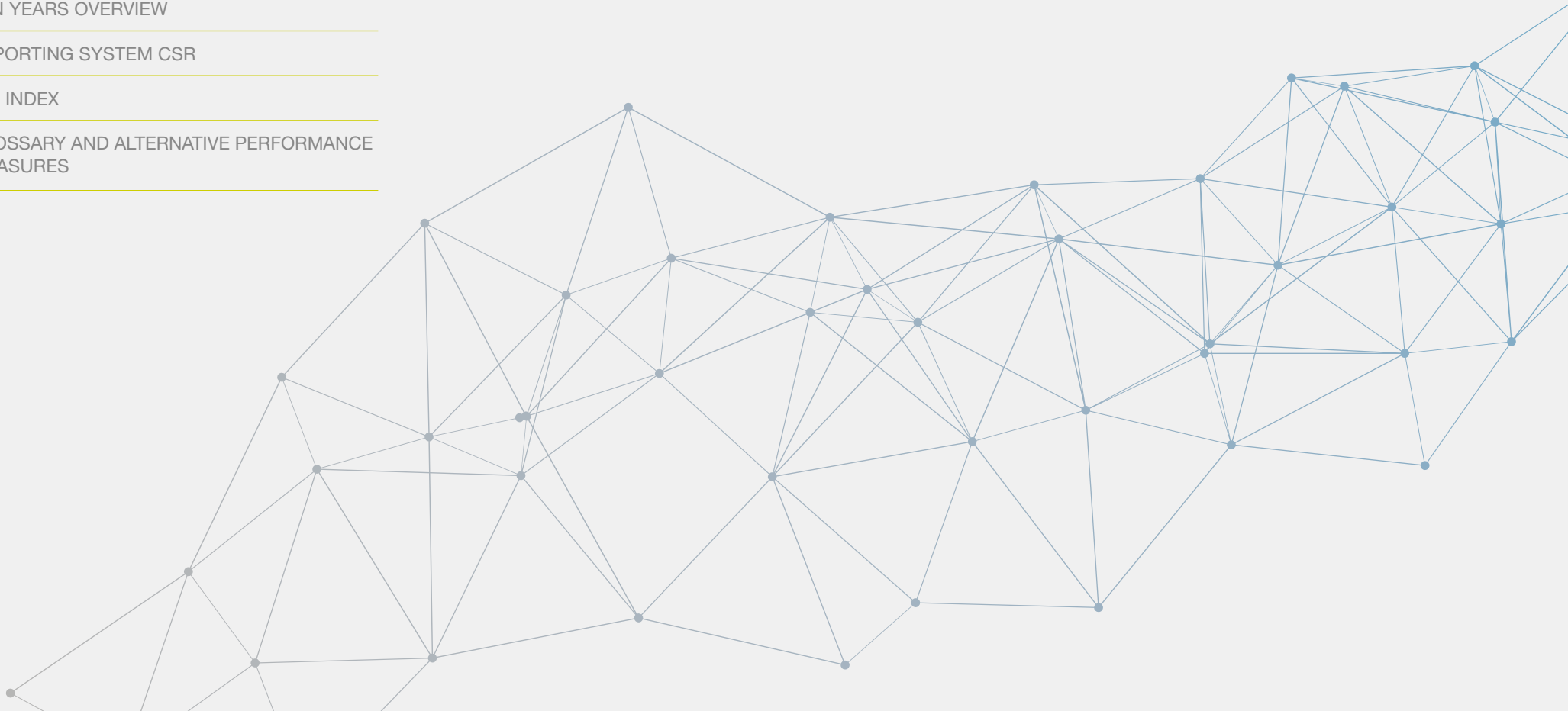
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REGULATION FOR PROFIT APPROPRIATION

Since no protection preference and financing preference shares were outstanding or issued, within the meaning of Articles 33.1, 3, 4, 5, 6 paragraph b and c, 8, 9 and 12 below, only the articles governing the profit appropriation in relation to the outstanding shares are included here.

Article 33 of the articles of association reads as follows:

2. The company may make distributions to the shareholders and other persons entitled to distributable profits only to the extent that its shareholders' equity exceeds the sum of the paid-up and called-up part of the capital plus the reserves that must be maintained pursuant to the law or the articles of association.
- 6a. From any profit remaining after application of the previous paragraphs five percent (5%) of the nominal amount of the priority shares shall, if possible, be distributed on such priority shares. No further distribution shall be made on the priority shares.
7. If in any year the profit does not suffice to make the distributions referred to above in paragraph 6 of this article, the provisions in paragraph 6 and in paragraph 10 shall not apply in the subsequent financial years until the deficit has been made up. Subject to the approval of the Supervisory Board, the Executive Board is authorised to resolve to distribute an amount equal to the deficit referred to in the previous sentence charged to the reserves.
10. Of the profit remaining thereafter, the Executive Board shall, subject to the approval of the Supervisory Board, reserve as much as it deems necessary. In so far as the profit is not reserved under application of the previous sentence, it shall be at the disposal of the general meeting, either fully or partially for reservation, or fully or partially for distribution to holders of ordinary shares proportionately to their holding of ordinary shares.

For other provisions of the articles of association we refer to TKH's website: www.tkhgroup.com.

PROPOSAL FOR PROFIT APPROPRIATION

in thousands of euros

Net profit attributable to shareholders € 108,551.

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2018 INCLUDED IN THE ANNUAL REPORT

OUR OPINION

We have audited the financial statements 2018 of TKH Group N.V., based in Haaksbergen. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion

- The accompanying consolidated financial statements give a true and fair view of the financial position of TKH Group N.V. as at 31 December 2018 and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- The accompanying company financial statements give a true and fair view of the financial position of TKH Group N.V. as at 31 December 2018 and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated balance sheet as at 31 December 2018;
- The following statements for 2018: the consolidated statement of profit and loss, the consolidated statements of comprehensive income, changes in group equity and cash flow;
- The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- The company balance sheet as at 31 December 2018;
- The company statement of profit and loss for 2018;
- The notes comprising a summary of the accounting policies and other explanatory information.

BASIS FOR OUR OPINION

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of TKH Group N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIALITY

Materiality	€ 6.5 million (2017: € 5.0 million)
Benchmark applied	5% of profit before tax
Explanation	We consider profit before tax to be the most appropriate benchmark for TKH Group N.V., given the relevancy for the stakeholders. The increase in materiality is the result of a higher profit before tax.

We have also taken into account misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of € 325,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

SCOPE OF THE GROUP AUDIT

TKH Group N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of TKH Group N.V.

The group audit focused, in particular, on the holding and the operating companies which are significant in terms of size and financial importance or for which significant risks or more complex activities (such as construction contracts and research and development) apply. The audit of the Dutch operating companies within the scope of the group audit were performed by ourselves.

With the exception of two operating companies in Germany, the audit of the foreign operating companies in scope were performed by EY teams. We provided the component teams with detailed instructions and the component teams performed their audit procedures on the basis of those instructions and reported the outcome of their audit procedures to us.

We interacted regularly with all component teams throughout 2018 and during the year-end audit in 2019. In addition, we visited operating companies and component teams in China, Germany, Poland and Italy. On this basis we directed and supervised the group audit and we were able to address the significant observations in our group audit.

The procedures in relation to the consolidation of the group, the assessment of the valuation of goodwill and intangible fixed assets of acquired companies, the acquisitions and the explanatory notes in the financial statements were performed centrally. In total, the aforementioned procedures represent 74% (2017: 79%) of the total assets, 69% (2017: 65%) of the profit before tax in absolute values and 70% (2017: 69%) of the group's revenue.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able

to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

OUR KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In prior year the "valuation of goodwill" was identified as key audit matter. Given the headroom between the net realizable value, the market capitalization and the carrying value of the net assets we have not identified the valuation of goodwill as a key audit matter in the current year audit.

RISK	OUR AUDIT APPROACH	KEY OBSERVATION
ACQUISITION LAKESIGHT		
<p>On 16 October 2018 TKH Group N.V. has signed the share purchase agreement and obtained control over the activities of Lakesight Technologies Holding srl. per this date. The transfer of the shares took place as per 28 November 2018. In order to determine the fair value and to allocate these to the individual assets, liabilities and goodwill, management has used valuation models and internal and external market information.</p> <p>The execution of these procedures requires significant judgement by management of TKH Group N.V., which are judgmental and complex.</p> <p>For further information about the acquisition, we refer to note 35 of the consolidated financial statements.</p>	<p>We audited the share purchase agreement between Ambienta Sgr S.p.A and TKH Group N.V. and other legal documentation underlying the transaction. As part of our audit procedures, we: (i) obtained an understanding of management's procedures to determine the date of obtaining control, the fair value of the acquired assets and liabilities of Lakesight Technologies Holding Srl and we obtained supporting documentation. We involved our internal valuation experts in assessing the assumptions and inputs used in determining the fair value; (ii) had meetings with management of Lakesight Technologies Holding Srl; (iii) obtained the available statutory annual report 2018 of the acquired entities; and (iv) assessed whether note 35 is in accordance with IFRS 3 and assessed whether note 1 provides sufficient information over the valuation of Lakesight Technologies Holding Srl as from the date TKH Group N.V. obtained control.</p>	<p>We concur with the accounting treatment of the acquisition of Lakesight Technologies Holding Srl in the financial statements.</p> <p>We are of the opinion that the explanatory notes are adequate.</p>
VALUATION OF DEVELOPMENT COSTS AND NEW BUSINESS ACTIVITIES		
<p>TKH Group N.V. is investing in the development of new technologies. In accordance with the requirements of IAS 16 or IAS 38 TKH capitalizes the costs.</p> <p>This is a complex estimation process, especially for investments in new innovative projects and new business activities, and is to a large extent dependent on subjective factors. We have therefore identified the valuation of development costs and assets in relation to new business activities as a key audit matter. As per 31 December 2018 the amount of capitalized development costs amounts to € 87 million (2017: € 72 million), the investments in new business activities are capitalized as part of property plant and equipment. TKH Group N.V. concludes, based on internal analysis, that the capitalized costs meet the requirements of IAS 16 or IAS 38.</p> <p>We refer to note 3 intangible fixed assets, note 4 tangible fixed assets and the related accounting principles and assumptions in note 1 and 2 of the consolidated financial statements.</p>	<p>We used internal analysis of the company for our audit of the capitalized development costs including new innovative projects and/or business activities. We assessed whether capitalized projects are separately identifiable; whether capitalized costs are a fair reflection of the actual cost; whether the projection of future economic benefits and cash flows is reasonable, including the technical feasibility, the intention to complete and the possibility to execute the projects commercially.</p> <p>Additionally we audited the explanatory notes for development costs and assessed the related estimations.</p>	<p>We concur with the valuation of development costs, including new innovative projects and business activities, in the financial statements.</p> <p>We are of the opinion that the explanatory notes are adequate.</p>

RISK	OUR AUDIT APPROACH	KEY OBSERVATION
REVENUE RECOGNITION, INCLUDING THE SELECTED TIMING OF RECOGNITION		
<p>Given the variety of revenue categories of TKH Group N.V. and the application of IFRS 15 'Revenue from Contracts with Customers' as per 1 January 2018, we identified cut-off and completeness of revenue recognition as a key audit matter.</p> <p>We refer to the accounting policies in note 1 of the consolidated financial statements.</p>	<p>We obtained and confirmed our understanding of the revenue recognition process, including the timing of revenue recognition, based on analyses prepared by TKH Group N.V. with respect to the implementation of IFRS 15 'Revenue from Contracts with Customers'.</p> <p>We performed walkthroughs for the significant revenue categories in order to evaluate the controls associated to the related risks. Based here on we performed, among others, the following substantive audit procedures:</p> <ul style="list-style-type: none"> • data analysis in which specific trends, cut-off aspects and correlations (e.g. turnover - receivables - cash and cash equivalents) were analyzed; • margin analyses for each significant segment and product line; and • test of details in respect of individual turnover transactions, where we traced transactions from the initiation stage up to and including accountability; and • detailed procedures to determine that the requirements as defined in IFRS 15 are correctly applied. 	<p>We concur with the result as recorded for by TKH Group N.V. in its financial statements.</p> <p>We are of the opinion that the explanatory note is adequate.</p>
VALUATION OF CONTRACT ASSETS AND LIABILITIES		
<p>A number of operating companies of TKH Group N.V. produces orders which are specifically negotiated with customers resulting in the recognition of contract assets and liabilities per balance sheet and prompting management to make estimates of the percentage of completion of the contracts, as well as the expected result of the contracts. This process involves complex estimations and is highly dependent on subjective factors. We therefore identified the valuation of contract assets and liabilities as a key audit matter.</p> <p>We refer to note 10 contract assets and the related accounting principles in note 1 of the consolidated financial statements.</p>	<p>Our procedures mainly include substantive procedures which were performed at the level of the operating companies, depending on the nature and size of the contracts.</p> <p>Our audit procedures focused on, among others:</p> <ul style="list-style-type: none"> • the capitalization of costs and commissions on projects; • the estimation of the 'percentage of completion'; • changes in project forecasts, including interim revisions, if any; • back testing of management assumptions. <p>With respect IFRS 15 'Revenue from Contracts with Customers' we audited the contract assets and -liabilities that are accounted for in accordance with IFRS 15.</p>	<p>We consider the estimates by management, to determine the value of the contract assets and liabilities, as reasonable.</p> <p>We are of the opinion that the explanatory notes are adequate.</p>

REPORT ON OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- report Executive Board;
- message of the CEO;
- members Supervisory Board;
- report of the Supervisory Board;
- remuneration report;
- report of the TKH Trust Office Foundation Stichting Administratiekantoor TKH Group;
- report of the TKH Continuity Foundation Stichting Continuïteit TKH;
- section;
- other information.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements;
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

ENGAGEMENT

We were engaged by the Supervisory Board as auditor of TKH Group N.V. on 14 May 2014, as of the audit for the year 2015 and have operated as statutory auditor ever since that date.

NO PROHIBITED NON-AUDIT SERVICES

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

OTHER NON-PROHIBITED SERVICES PROVIDED

Besides the statutory audit of the financial statements we have not provided other services in the Netherlands. Outside the Netherlands very limited other procedures are being provided to operating companies in respect to their Corporate Income Tax declaration. These procedures are allowed within the VtO.

DESCRIPTION OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

RESPONSIBILITIES OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

OUR RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Zwolle, 4 March 2019

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

CONSOLIDATED ENTITIES

Name	Place	Country	Ownership 31-12-2018 ¹	Ownership 31-12-2017 ¹	Telecom Solutions	Building Solutions	Industrial Solutions
Alphatronics B.V.	Nijkerk	Netherlands	100.0%	100.0%		●	
BB Lightpipe B.V.	Doetinchem	Netherlands	100.0%	100.0%		●	
B.V. Twentsche Kabelfabriek	Haaksbergen	Netherlands	100.0%	100.0%	●	●	●
bv Elspec	De Kwakel	Netherlands	100.0%	100.0%			●
Capable B.V.	Breda	Netherlands	100.0%	100.0%			●
Capassy B.V.	Breda	Netherlands	100.0%	100.0%			●
Commend Benelux B.V.	Prinsenbeek	Netherlands	100.0%	100.0%		●	
Cruxin B.V.	Capelle a/d IJssel	Netherlands	100.0%	100.0%		●	
EKB Groep B.V.	Beverwijk	Netherlands	100.0%	100.0%			●
Eldra B.V.	Ittervoort	Netherlands	100.0%	100.0%		●	●
Flexposure B.V. ²	Beesd	Netherlands	70.0%	70.0%		●	
Intronics B.V.	Barneveld	Netherlands	100.0%	100.0%	●	●	●
Isolectra B.V.	Capelle a/d IJssel	Netherlands	100.0%	100.0%		●	
Jobarco B.V.	Benthuizen	Netherlands	100.0%	100.0%			●
Keyprocessor B.V.	Amsterdam	Netherlands	100.0%	100.0%		●	
LMI Technologies B.V.	Kerkrade	Netherlands	100.0%	100.0%		●	
Mextal B.V. ²	Nuenen	Netherlands	95.0%	95.0%		●	
Pantaflex B.V. ²	Bergschenhoek	Netherlands	94.4%	94.4%			●
Park Assist Europe B.V.	Beesd	Netherlands	100.0%	100.0%		●	
Siqura B.V.	Gouda	Netherlands	100.0%	100.0%		●	
Speeq B.V.	Capelle a/d IJssel	Netherlands	100.0%	100.0%		●	
Texim Europe B.V.	Haaksbergen	Netherlands	100.0%	100.0%	●	●	●
TKH Logistics B.V.	Haaksbergen	Netherlands	100.0%	100.0%	●	●	●
TKH Logistics Vastgoed B.V.	Haaksbergen	Netherlands	100.0%	100.0%	●	●	●
TKH Parking Technology B.V.	Beesd	Netherlands	51.0%	51.0%		●	
TKH Security Solutions B.V.	Haaksbergen	Netherlands	100.0%	100.0%		●	
USE System Engineering B.V. ²	Haaksbergen	Netherlands	75.0%	75.0%		●	
VDG Security B.V.	Zoetermeer	Netherlands	100.0%	100.0%		●	
VMI Holland B.V.	Epe	Netherlands	100.0%	100.0%			●
Capable N.V.	Gent	Belgium	100.0%	100.0%			●
Intronics Belgium N.V.	Herentals	Belgium	100.0%	100.0%	●	●	●
Texim Europe BVBA	Brussel	Belgium	100.0%	100.0%	●	●	●
Techno Specials N.V.	Gent	Belgium	100.0%	100.0%		●	●
EFB Nordics A/S	Ballerup	Denmark	100.0%	100.0%	●	●	
Induperm A/S	Nykøbing Falster	Denmark	100.0%	100.0%		●	
Aasset Germany GmbH	Erkrath	Germany	100.0%	100.0%		●	
Allied Vision Technologies GmbH	Stadtroda	Germany	100.0%	100.0%		●	
ASP AG	Erkrath	Germany	100.0%	100.0%		●	
Chromasens GmbH	Konstanz	Germany	100.0%			●	
Dewetron Elektronische Messgeräte GmbH	Wernau	Germany	100.0%	100.0%			●
EEB Kabeltechnik GmbH	Forst	Germany	100.0%	100.0%			●
EFB Elektronik GmbH	Bielefeld	Germany	100.0%	100.0%	●	●	●
EFB Elektronik Real Estate B.V. & Co. KG	Bielefeld	Germany	100.0%	100.0%	●	●	●
Ernst & Engbring GmbH	Oer-Erkenschwick	Germany	100.0%	100.0%			●

Name	Place	Country	Ownership 31-12-2018 ¹	Ownership 31-12-2017 ¹	Telecom Solutions	Building Solutions	Industrial Solutions
HE System Electronic Beteiligungs GmbH	Veitsbronn	Germany	100.0%	100.0%			●
HE System Electronic GmbH & Co. KG	Veitsbronn	Germany	100.0%	100.0%			●
IV-Tec GmbH	Freiburg	Germany	100.0%	100.0%		●	
Lakesight Technologies Holding GmbH	Unterschleissheim	Germany	100.0%			●	
LMI Technologie GmbH	Teltow	Germany	100.0%	100.0%		●	
Mikrotron GmbH	Unterschleissheim	Germany	100.0%			●	
New Electronic Technology GmbH	Finning	Germany	100.0%	100.0%		●	
Schneider Intercom GmbH	Erkrath	Germany	100.0%	100.0%		●	
Schrade Kabel- und Elektrotechnik GmbH	Allmendingen	Germany	100.0%	100.0%			●
Texim Europe GmbH	Quickborn	Germany	100.0%	100.0%	●		●
TKD Immobilien GmbH	Nettetal	Germany	100.0%	100.0%			●
TKD Kabel GmbH	Nettetal	Germany	100.0%	100.0%			●
TKD Kabel Real Estate B.V. & Co KG	Nettetal	Germany	100.0%	100.0%			●
TKF GmbH	Teltow	Germany	100.0%	100.0%	●		
TKH Airport Technologie GmbH	Nettetal	Germany	100.0%	100.0%		●	
TKH Deutschland GmbH & Co. KG	Nettetal	Germany	100.0%	100.0%			
TKH Deutschland Verwaltungs GmbH	Nettetal	Germany	100.0%	100.0%			
TKH Grundstücksverwaltungs B.V. & Co. KG	Nettetal	Germany	100.0%	100.0%		●	●
TKH Security Solutions GmbH	Erkrath	Germany	100.0%	100.0%		●	
TKH Technologie Deutschland AG	Nettetal	Germany	100.0%	100.0%			
VMI-AZ Extrusion	Cham	Germany	100.0%	100.0%			●
Aasset France SAS	Argenteuil	France	100.0%	100.0%		●	
CAE Data SAS	Wissous	France	100.0%	100.0%	●	●	●
ID Cables SAS	Wissous	France	100.0%	100.0%	●	●	●
HPM Cables SARL	Chaon	France	90.0%	90.0%			●
TKF SAS	Wissous	France	100.0%	100.0%	●		
Commend France SAS	Saint Ouen	France	100.0%	100.0%		●	
Dewetron France SARL	Chilly Mazarin	France	100.0%	100.0%		●	
LMI Technologies Ltd.	Dublin	Ireland	100.0%	100.0%		●	
Aasset Italia	Conegliano	Italy	100.0%	100.0%		●	
KC Industrie SARL	Villanova sull' Arda	Italy	94.5%	94.5%			●
TKD Italia SRL	Ozzano Dell Emilia	Italy	70.0%	70.0%			●
Commend Italia SRL	Carobbio Degli Angeli (BG)	Italy	100.0%	100.0%		●	
Tattile SRL	Mairano (Brescia)	Italy	100.0%			●	
Akutron LLC	Kiev	Ukraine	100.0%				●
Commend International GmbH	Salzburg	Austria	100.0%	74.0%		●	
Dewetron Elektronische Messgeräte GmbH	Graz	Austria	100.0%	100.0%			●
EFB Elektronik Austria GmbH	Wien	Austria	100.0%	100.0%	●	●	●
Ognios GmbH	Wals-Siezenheim	Austria	100.0%			●	
C&C Partners Sp. z o.o	Leszno	Poland	100.0%	100.0%	●	●	
C&C Technology Sp. z o.o	Leszno	Poland	100.0%	100.0%		●	
TKD Polska Sp. z.o.o	Warschau	Poland	100.0%	100.0%			●
TKH Kabeltechnik Polska Sp. z.o.o	Leszno	Poland	100.0%	100.0%			●
VMI Poland Sp. z.o.o	Leszno	Poland	100.0%	100.0%			●
Intronics Espana SA	Malaga	Spain	100.0%	100.0%	●	●	●
Sigura S.L.	Madrid	Spain	100.0%	100.0%		●	
Commend Iberica S.L.	Barcelona	Spain	100.0%	100.0%		●	

Name	Place	Country	Ownership 31-12-2018 ¹	Ownership 31-12-2017 ¹	Telecom Solutions	Building Solutions	Industrial Solutions
EFB Elektronik Ltd.	Istanbul	Turkey	90.0%	90.0%	●	●	
Commend Güvenlik ve İletişim Sistemleri Ltd. Şti.	Istanbul	Turkey	85.0%	85.0%		●	
Commend UK Ltd.	Stansted	UK	100.0%	100.0%		●	
Sigura Ltd.	Rotherham	UK	100.0%	100.0%		●	
Park Assist Ltd.	London	UK	100.0%	100.0%		●	
Commend Scandinavia AB	Tierp	Sweden	80.0%	100.0%		●	
VMC Elteknik AB	Strängnäs	Sweden	100.0%	100.0%	●	●	
Multi Media Connect (Aust) Pty Ltd.	Tuggerah	Australia	100.0%	85.0%		●	
Park Assist Holdings Pty Ltd.	Sydney	Australia	100.0%	100.0%		●	
Park Assist Pty Ltd.	Sydney	Australia	100.0%	100.0%		●	
Jacques Technologies Pty Ltd.	Brisbane	Australia	100.0%			●	
VMI South America Ltda.	Sao Paulo	Brazil	100.0%	100.0%			●
Allied Vision Technologies Inc.	Burnaby	Canada	100.0%	100.0%		●	
LMI Technologies Inc.	Vancouver	Canada	100.0%	100.0%		●	
Redline CNC Manufacturing Inc.	Vancouver	Canada	100.0%			●	
Allied Vision Technologies (Shanghai) Co. Ltd.	Shanghai	China	100.0%	100.0%		●	
Dewetron China Ltd.	Shanghai	China	100.0%	100.0%			●
E&E Cable (Zhangjiagang) Co. Ltd	Zhangjiagang	China	100.0%				
LMI (Shanghai) Trading Co. Ltd.	Shanghai	China	100.0%	100%		●	
TKD China Co. Ltd.	Zhangjiagang	China	100.0%	100.0%			●
TKH Building Solutions Shanghai Co. Ltd.	Shanghai	China	100.0%	100.0%		●	
Twentsche (Nanjing) Fibre Optics Co. Ltd.	Nanjing	China	100.0%	100.0%	●		
VMI (Yantai) Machinery Co. Ltd.	Yantai	China	100.0%	100.0%			●
VMI Ltd.	Yantai	China	100.0%	100.0%			●
Zhangjiagang Twentsche Cable Co. Ltd.	Zhangjiagang	China	100.0%	100.0%		●	
Isolectra Communications Technology Sdn Bhd	Shah Alam	Malaysia	100.0%	100.0%	●	●	
VMI SEA Office Sdn BHD	Shah Alam	Malaysia	100.0%				●
Ithaca SA	Casablanca	Morocco	100.0%	75.0%		●	
NET Japan Co. Ltd.	Yokohama	Japan	90.0%	90.0%		●	
Multi Media Connect (N.Z.) Pty Ltd.	Paraparaumu	New Zealand	85.0%	85.0%		●	
Allied Vision Technologies Pte Ltd.	Singapore	Singapore	100.0%	100.0%		●	
Commend South East Asia Pte Ltd.	Singapore	Singapore	100.0%			●	
Isolectra Far East Pte Ltd.	Singapore	Singapore	100.0%	100.0%	●	●	
LMI Technologies yuhan hoesa	Zuid Korea	South Korea	100.0%			●	
VMI Thailand	Thailand	Thailand	100.0%				●
CMF Taiwan	Taiwan	Taiwan	60.0%	60.0%		●	
Commend Middle East FZE	Dubai	United Arab Emirates	100.0%	74.0%		●	
Allied Vision Technologies Inc.	Boston	USA	100.0%	100.0%		●	
Commend Inc.	New York	USA	100.0%	100.0%		●	
Dewetron America Inc.	Wakefield	USA	100.0%	95.0%			●
Kaweflex Wire and Cable Inc.	Cincinnati	USA	100.0%	100.0%			●
LMI Technologies Inc.	Detroit	USA	100.0%	100.0%		●	
NET USA Inc.	Highland	USA	100.0%	100.0%		●	
Park Assist LLC	New York	USA	100.0%	100.0%		●	
TKH Security Solutions USA Inc.	Germantown	USA	100.0%	100.0%		●	
VMI Americas Inc.	Stow	USA	100.0%	100.0%			●

¹ Economic ownership is equal to the legal ownership, unless mentioned differently.
² Economic ownership is 100%.

³ The aforementioned German subsidiaries included in TKH's consolidated financial statements make use of the exemption in § 264 (3), § 264 (b) HGB to prepare, audit and publish individual annual accounts. TKH Deutschland GmbH & Co. KG is not required to draw up consolidated annual accounts pursuant to § 291 HGB.

SUBSIDIARIES

Alphatronics BV

Boekdrukker 5-7
3861 SE Nijkerk
The Netherlands
T +31 33 245 99 44
E info@alphatronics.nl
I alphatronics.nl

Aasset Security

153 rue Michel Carré
95100 Argenteuil
France
T +33 1 30 76 30 30
E info@aasset-security.com
I aasset-security.com

Also establishment in:

Germany

Allied Vision (HQ)

Taschenweg 2a
07646 Stadtroda
Germany
T +49 364 28 67 70
E info@alliedvision.com
I alliedvision.com

Also establishments in:

Canada, China, Germany
(Osnabrück and Ahrensburg),
Singapore and USA

BB Lightpipe BV

Fabriekstraat 16-04
7005 AR Doetinchem
The Netherlands
T +31 314 39 23 48
E info@bblightpipe.com
I bblightpipe.com

C&C Partners Sp. z.o.o.

ul. 17 Stycznia 119-121
64-100 Leszno
Poland
T +48 655 25 55 00
E info@ccpartners.pl
I ccpartners.pl

C&C Technology Sp. z.o.o

ul. 17 Stycznia 119
64-100 Leszno
Poland
T +48 655 25 55 00
E info@cctechnology.pl
I cctechnology.pl

Capable BV

Weidehek 109
4824 AT Breda
The Netherlands
T +31 76 541 64 56
E info@capable.nl
I capable.nl

Also establishment in:

Belgium

Commend Group (HQ)

Saalachstrasse 51
5020 Salzburg
Austria
T +43 662 85 62 25
E office@commend.com
I commend.com

Also establishments in:

Dubai, Germany, France, Italy,
the Netherlands, Singapore,
Spain, Turkey, UK, USA and
Sweden

Cruxin BV

Rivium Boulevard 101
2909 LK Capelle a/d IJssel
The Netherlands
T +31 10 285 52 85
E info@cruxin.nl
I cruxin.nl

Dewetron GmbH

Parkring 4
8074 Graz-Grambach
Austria
T +43 316 30 70
E info@dewetron.com
I dewetron.com

Also establishments in:

China, Germany, France and
USA

EFB Elektronik GmbH (HQ)

Striegauerstraße 1
33719 Bielefeld
Germany
T +49 521 40 41 80
E info@efb-elektronik.de
I efb-elektronik.de

Also establishments in:

Denmark, Austria and Turkey

EKB Groep BV

Wijkemeerweg 31
1948 NT Beverwijk
The Netherlands
T +31 251 26 19 20
E info@ekb.nl
I ekbgroep.nl

Also establishments in:

The Netherlands (Drachten,
Haaksbergen, Houten and
Someren)

Eldra BV

Branskamp 7
6014 CB Ittervoort
The Netherlands
T +31 475 56 67 67
E info@eldra.nl
I eldra.nl

bv Elspec

Bedrijvenweg 14
1424 PX De Kwakel
The Netherlands
T +31 297 33 03 00
E welkom@elspec.nl
I elspec.nl

Ernst & Engbring GmbH

Industriestraße 9
45739 Oer-Erkenschwick
Germany
T +49 23 68 690 10
E info@eue-kabel.de
I eue-kabel.de

Also establishments in:

Germany (Forst), Ukraine, China

HE System Electronic GmbH

Reitweg 1
90587 Veitsbronn
Germany
T +49 911 97 58 10
E info@he-system.com
I he-system.com

Intronics Groep BV

Koolhovenstraat 1E
3772 MT Barneveld
The Netherlands
T +31 342 40 70 40
E info@intronics.nl
I intronics.nl

Also establishments in:

Belgium, the Netherlands (Elsloo)
and Spain

Isolectra BV

Rivium Boulevard 101
2909 LK Capelle a/d IJssel
The Netherlands
T +31 10 285 52 85
E info@isolectra.nl
I isolectra.nl

Isolectra Far East Pte Ltd

29 Tai Seng Avenue
#05-06 Natural Cool Life Style Hub
Singapore 534119
Singapore
T + 65 62 72 23 71
E enquiry@isolectra.com.sg
I isolectra.com.sg

Isolectra Communications Technology Sdn Bhd

Lot 10, Jalan Astaka U8/84
Seksyen U8, Bukit Jelutong
40150 Shah Alam
Selangor Darul Eshan
Malaysia
T +60 3 78 46 99 88
E ism@isolectra.com.my

Jacques Technologies Pty Ltd

268 Montague Road
West End 4101, Brisbane
Australia
T +61 7 38 46 84 00
E sales@jacques.com.au
I jacques.com.au

Jobarco BV

Verbreepark 15
2731 BR Benthuisen
The Netherlands
T +31 79 331 93 13
E info@jobarco.com
I jobarco.com

KC Industrie Srl

Via Dante Alighieri 33
29010 Villanova sull'Arda
Italy
T + 39 0523 83 78 99
E info@kcindustrie.it
I kcindustrie.it

Keyprocessor BV

Paasheuvelweg 20
1105 BJ Amsterdam Z.O.
The Netherlands
T +31 20 462 07 00
E info@keyprocessor.com
I keyprocessor.com

Lakesight Technologies GmbH

Landshuterstrasse 20-22
85716 Unterschleissheim
Germany
T +49 89 72 63 42 00
E contact@lakesighttechnologies.com
I lakesighttechnologies.com

Also establishments in:

Germany (Konstanz) and Italy

LMI Technologies Inc. (HQ)

9200 Glenlyon Parkway
Burnaby, BC V5J 5J8
Canada
T +1 60 46 36 10 11
I lmi3D.com

Also establishments in:

China, Germany, the Netherlands
and USA

Mextal BV

De Tienden 48
5674 TB Nuenen
The Netherlands
T +31 40 290 75 10
E info@mextal.com
I mextal.com

NET GmbH (HQ)

Lerchenberg 7
86923 Finning
Germany
T +49 8806 923 40
E info@net-gmbh.com
I net-gmbh.com

Also establishments in:

Japan and USA

Ognios GmbH

Dr.-Hans-Lechner-Straße 6
5071 Siezenheim
Austria
T +43 662 254 86 16 01
E office@ognios.com
I ognios.com

Pantaflex BV

Verbreepark 15
2731 BR Benthuizen
The Netherlands
T +31 79 331 00 07
E info@pantaflex.nl
I pantaflex.nl

Park Assist (HQ)

57 W 38th Street, 11th Floor
New York, NY 10018
USA
T +1 877 899 72 75
E usa@parkassist.com
I parkassist.com

Also establishments in:

Australia, Dubai, Latin America
and the Netherlands

**Schrade Kabel und
Elektrotechnik GmbH**

Carl-Benz Strasse 1
89604 Allmendingen
Germany
T +49 7391 707 40
E info@schrade-kabel.de
I schrade-kabel.de

Siqura BV (HQ)

Meridiaan 32
2801 DA Gouda
The Netherlands
T +31 182 59 23 33
E sales.nl@tkhsecurity.com
I siqura.com

Also establishments in:

Dubai, Singapore, Spain, UK and
USA

Speeq BV

Rivium Boulevard 101
2909 LK Capelle a/d IJssel
The Netherlands
T +31 10 285 52 85
E info@speeq.nl
I speeq.nl

Techno Specials NV

Ottergemsesteenweg Zuid 731a
9000 Gent
Belgium
T +32 9 325 82 12
E info@technospecials.be
I technospecials.be

Texim Europe BV

Elektrostraat 17
7483 PG Haaksbergen
The Netherlands
T +31 53 573 33 33
E info@texim-europe.com
I texim-europe.com

Also establishments in:

Belgium, Denmark, Germany,
Italy, Austria and UK

TKD Kabel GmbH (HQ)

An der Kleinbahn 16
41334 Nettetal
Germany
T +49 2157 897 90
E anfrage@tkd-kabel.de
I tkd-kabel.de

Also establishments in:

China, Germany (Iserlohn
and Pliezhausen), France, Italy,
Poland and USA

**TKH Building Solutions
Shanghai Ltd.**

1104-1105, 11th floor
No. 509 Wuning Road
Putuo District
Shanghai 200063
T +86 21 31 33 57 63
P.R. China
E info@tkhchina.com
I tkhchina.com

**TKH France SAS /
CAE Groupe (HQ)**

3 Rue Jeanne Garnerin
91320 Wissous
France
T +33 1 69 79 14 40
E info@cae-groupe.fr
I cae-groupe.fr

Also establishment in:

Morocco

TKH Kabeltechnik Sp. z.o.o

Budowlanych 15
64-100 Leszno
Poland
T +48 65 520 3583
E info@tkhkabeltechnik.pl
I tkhkabeltechnik.pl

TKH Logistics BV

Elektrostraat 17
7483 PG Haaksbergen
The Netherlands
T +31 53 850 50 00
E info@tkhlogistics.nl
I tkhlogistics.nl

**Twentsche (Nanjing) Fibre
Optics Ltd (TFO)**

No. 2 Xinke 4 Road
Pukou Nanjing 210061
P.R. China
T +86 25 58 84 48 88
E marketing@tfo.com.cn
I tfo.com.cn

BV Twentsche Kabelfabriek (HQ)

Spinnerstraat 15
7481 KJ Haaksbergen
The Netherlands
T +31 53 573 22 55
E info@tkf.nl
I tkf.nl

Also establishments in:

Germany, the Netherlands (Lochem),
France and Nordics

TKH Airport Solutions

Elektrostraat 17
7483 PG Haaksbergen
The Netherlands
T +31 53 574 14 56
E info@tkhairport.com
I tkh-airportsolutions.com

Also establishments in:

the Netherlands (Haaksbergen),
Denmark and Germany

TKH Innovations BV

Industrieweg 22
4153 BW Beesd
the Netherlands
T +31 88 500 87 00

**VDG Security BV /
Flexposure BV**

Platinastraat 65
2718 SZ Zoetermeer
The Netherlands
T +31 79 363 81 11
E info@vdgsecurity.com
I vdgsecurity.com

Also establishment in:

The Netherlands (Beesd)

VMI Holland BV (HQ)

Gelriaweg 16
8161 RK Epe
The Netherlands
T +31 578 67 91 11
E info@vmi-group.com
I vmi-group.com

Also establishments in:

China, Brazil, Germany, Malaysia,
Poland, Russia and USA

**Zhangjiagang Twentsche
Cable Co. Ltd**

ChuangYe Road, Jinfeng Town
Zhanjiagang, Jiangsu, 215625
P.R. China
T + 86 512 58 57 11 88
E sales.list@twentshecable.com
I twentshecable.com

HQ = Headquarters

TEN YEARS OVERVIEW

in millions of euros

	2018	2017 ¹	2016	2015	2014	2013	2012	2011	2010	2009
Consolidated profit and loss account										
Total turnover	1,631	1,485	1,341	1,375	1,346	1,198	1,102	1,061	894	726
Raw materials, consumables, trade products and subcontracted work	890	817	710	743	770	699	652	649	545	430
Personnel expenses	381	347	331	326	296	277	234	210	174	158
Depreciation ²	28	25	22	22	20	19	17	15	14	16
Other operating expenses	147	147	131	133	124	103	113	95	88	81
Total operating expenses	1,446	1,336	1,194	1,224	1,210	1,098	1,016	969	821	685
EBITA before one-off income and expenses	185	149	147	151	136	100	86	92	73	41
One-off income and expenses		6			9	-7	-12	-2		-12
EBITA	185	143	147	151	145	93	74	90	73	29
Impairments	2	2	1	1	1					4
Amortization	40	37	33	32	26	26	21	13	11	9
Operating result	143	104	113	118	118	67	53	77	62	16
Financial result	-5		-7	-7	-10	-13	-12	-7	-7	-11
Change in value of financial liability for squeeze-out, earn-out and put options of shareholders of non-controlling interests		4	1							
Result on ordinary activities before taxes	138	108	107	111	108	54	41	70	55	5
Taxes	29	20	20	23	22	12	10	16	14	2
Net result	109	88	87	88	86	42	31	54	41	3
Non-controlling interests		1	1	2	3	5	3	1	1	
Attributable to shareholders	109	87	86	86	83	37	28	53	40	3

Key figures in % (unless stated otherwise)

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

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

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 2009 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. The one-off income and expenses in 2016 were impairments, on balance, of € 0.2 million (2015: € 1.5 million) and tax income of € 3.0 million (2015: € 0.3 million). In 2014, a one-off defined pension benefit gain of € 9.4 million is included. In 2013, one-off expenses arising from restructurings and impairments of € 7.2 million and € 0.2 million are included. The non-recurring items in 2012 relate to restructuring and acquisition costs of € 12.2 million, release of provisions for earn-out and put options of € 3.0 million and the tax benefit of about € 2.8 million. In 2011, the acquisition cost totaled € 2.0 million.

in millions of euros	2018	2017 ¹	2016	2015	2014	2013	2012	2011	2010	2009
Consolidated balance sheet										
Intangible non-current assets	544	392	395	400	352	349	343	204	168	167
Tangible non-current assets ²	246	229	215	196	176	199	195	171	157	151
Financial non-current assets	31	28	46	34	28	30	31	23	19	10
Total non-current assets	821	649	656	630	556	578	569	398	344	328
Inventories	255	219	207	194	202	185	197	165	138	115
Receivables	368	327	295	248	288	234	201	187	165	146
Cash and cash equivalents	83	88	88	179	145	80	66	29	23	44
Total current assets	706	634	590	621	635	499	464	381	326	305
Assets held for sale					3		7	7	7	9
Total assets	1,527	1,283	1,246	1,251	1,194	1,077	1,040	786	677	642
Shareholders' equity ²	647	594	574	521	483	378	364	356	317	281
Non-controlling interests	1	9	9	9	17	61	60	2	2	1
Group Equity	648	603	583	530	500	439	424	358	319	282
Provisions ²	86	69	74	71	68	112	105	75	54	64
Non-current liabilities	239	187	214	223	259	259	202	124	55	72
Borrowings	171	57	52	126	59	15	60	4	32	41
Financial liabilities	5	15	23	27	14					
Other current liabilities	378	352	300	274	294	252	249	225	217	183
Total equity and liabilities	1,527	1,283	1,246	1,251	1,194	1,077	1,040	786	677	642
Other information in euros (unless stated otherwise)	2018	2017¹	2016	2015	2014	2013	2012	2011	2010	2009
Solvency (in %)	42	47	47	42	42	41	41	46	47	44
Investments in tangible non-current assets	42	41	46	38	34	19	25	22	21	11
Depreciations of tangible non-current assets	28	24	23	23	20	19	17	15	14	17
Cash flow from operating activities	127	160	103	182	95	79	75	47	55	152
Number of shares outstanding and held by third parties at year end (x 1,000)	42,003	42,045	42,161	41,724	41,400	37,985	37,658	37,284	36,885	36,293
Net result per ordinary share of € 0.25	2.58	2.05	2.04	2.07	2.14	0.98	0.76	1.44	1.10	0.07
Net result before one-off income and expenses and amortization per share	2.88	2.27	2.25	2.40	2.23	1.48	1.27	1.63	1.21	0.49
Dividend per share	1.40	1.20	1.10	1.10	1.00	0.75	0.65	0.75	0.61	0.50
Highest share price	60.15	56.68	38.14	40.50	27.18	26.40	20.86	23.80	19.61	13.95
Lowest share price	38.36	36.45	28.47	25.35	22.13	18.55	15.41	13.24	12.52	6.35
Share price at year-end	40.70	52.93	37.59	37.44	26.36	25.40	19.50	16.95	19.61	13.95

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

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

REPORTING SYSTEM CSR

PROCEDURES, STANDARDS AND GUIDELINES

In the Annual Report 2018, we provide an account of, among other things, our performance in the area of CSR during the year under review from 1 January 2018 up to 31 December 2018. The legal publication date of the report is 25 March 2019. We discuss the topics that have been an integral part of our CSR policy for several years. We report in line with the Global Reporting Initiative (GRI) 'core'. The report's content and framework are based on a materiality analysis that identifies the material issues of greatest relevance for TKH, which are then used to decide the scope and boundaries of the CSR reporting. The GRI guidelines were used to define and set our KPIs. In the GRI guidelines, it is important that a company makes an estimate of issues that are of sufficient importance to merit reporting. The significance (materiality) of the issues to be selected is determined through analysis of the impact of the key data on people, the environment and society, in relation to the value stakeholders attach to those issues.

The principle of Integrated Reporting is further implemented in the management report of the Annual Report 2018. We use the IIRC (International Integrated Report Council) model by which we provide insight on how to create value within the TKH group. This is explained further in the Report of the Executive Board on the basis of qualitative and quantitative information. In compiling the CSR report, we used information and results derived from our monthly internal reporting structure and available from our organizations as part of their compliance with the ISO 14001 environmental management system, the OHSAS 18001 health & safety management system, the ISO 50001 standard for energy performance, the CSR Performance Ladder and the Dutch Corporate Governance Code and the Sustainable Development Goals. In addition, we used the findings and recommendations on the basis of providing information on the CDP platform, Ecovadis, Vigeo and MSCI.

To measure and report the 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 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 time.

Emission factors are values that are used to convert the amounts of energy used into the amount of CO₂ emissions. 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.

From the European directive on energy efficiency (2012/27 / EU) the obligation applies to member-states to ensure that large companies undergo an energy audit. The energy audit is a systematic, four-yearly approach with the aim of gathering information about the current energy consumption of a company. The energy audit provides a detailed overview of all existing energy flows within the company. We use the input from those TKH subsidiaries that belong to the defined scope and must carry out a mandatory energy audit, for the reporting on energy reduction and improvement plans to be implemented. The same applies to the input due to the ISO 50001 certification for energy performance from the German subsidiaries.

The products delivered by TKH comply with the European directives REACH (Registration, Evaluation and Authorization of Chemicals) and ROHS (Restriction of Hazardous Substances). REACH is a European system for registering, evaluating (risks to people and the environment) and authorizing chemical substances in Europe. ROHS is a European directive that prohibits certain hazardous substances from being used in electrical and electronic devices.

In the context of human rights, TKH acts in the business activities according to the 'Universal Declaration of Human Rights'. We refer to our code of conduct and the code of supply (both of which can be downloaded from the website www.tkhgroup.com). We support the OECD guidelines that provide us with guidance regarding such issues as supply chain responsibility, human rights, child labour and the environment.

We have provided our input to the Carbon Disclosure Project (CDP), a non-profit organization requesting the environmental impact of organizations on behalf of investors and public authorities on the basis of its own development platform. The report made several suggestions for improvement which we will analyze in more detail for further implementation of it within our management. We also provided ESG (environmental, social & governance) information on platforms of MSCI, Vigeo and S&P Dow Jones Indices.

We have used data from Statistics Netherlands for the benchmark data on absenteeism. The benchmark data for the employee satisfaction survey came from the research firm Integron. For benchmarking employee satisfaction in an international perspective, we use 'The Global Employee Engagement Index™'.

TKH Group is an active member of industrial and branch organizations.

- FTTH Council in Europe, North America, the Middle East, North Africa, Latin America and Asia-Pacific. This non-profit organization is established to accelerate Fibre To The Home (FTTH) technology. Members are manufacturers, system designers, consultancies and academic organizations.
- The International Cablemakers Federation (ICF) represents the largest part of the worldwide production capacity of the Wire & Cable Industry. As Federation of the world's leading wire and cable producers, this provides a worldwide forum for members to increase the visibility of the industry by highlighting the relevance of its products and technologies, as well as its contribution to the sustainable progress of the society.
- EMVA: is represented in more than 20 countries with the aim to promote the development and use of machine vision technology and to support the interests of its members.
- Retread tire Association: association for suppliers of the renewal and tire repair industry.

Materiality Matrix

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

multi-year period. In this way we aim to achieve consistency in our policy. The materiality matrix is a dynamic model so that it is frequently assessed whether adjustments are necessary in the up-scaling or downward adjustment of themes. Topics that are deemed less relevant, or even of no relevance at all, by our stakeholders and also by TKH will not be explained further in the Annual Report. These are subjects classified with a low classification and concerning the topics water and local presence. Set against the impact it has on our overall business operations, we have given a lower priority to these topics.

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

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

In the year under review, some shifts in themes were implemented in the materiality matrix. The reason for this is, among other things, the social relevance that a subject has received or because of (changed) legislation. Topics that have received a higher priority are diversity in the workforce, IT Security & Privacy and a prudent tax policy.

SCOPE AND CHANGES COMPARED TO LAST YEAR

The CSR policy is not adjusted in 2018. If policy changes are applied, these are explained in the report to the specific topic. Compared to previous reporting, there are no changes in the system of measuring. There have also been no changes in structure or ownership. Unless otherwise stated, the data are based on all our domestic and foreign subsidiaries. Where this is not so, explicit mention will be made of this. The subsidiaries acquired will start reporting on CSR in accordance with the TKH reporting structure in the year following acquisition. Companies in which TKH has a minority ownership interest are not included in the report. Consolidation of data occurred along the same lines as the system used in the financial consolidation. Any estimates

made are based on historical information. During the year under review, there were no changes to the legal structure, ownership or supply chain of the organization.

INTERNAL CONTROL

The data have been audited by the responsible company officers as to plausibility and progress using the Cognos financial reporting model. Data were verified by TKH's financial department. All reported differences greater than 10% compared with the previous year have been explicitly investigated. TKH's Internal Audit carries out audit reviews on the processes to be performed and the accuracy of the data as a permanent part of its work program. Internal Audit has spent specific attention during its audit work on compliance with the code of conduct within our subsidiaries and the implementation of the code of supply at strategic suppliers.

TKH does not have the CRS report verified externally. At the moment, the priority lies in investing time and commitment in implementing sustainability within the organization. However, we did have an external advisor check the CRS chapter against the GRI guidelines.

THE FOLLOWING GROUPS PROVIDED INPUT FOR THE CONTENT OF TKH'S CSR REPORT.

Shareholders

- CSR was discussed in the course of dealing with the 2016 Annual Report in the AGM on 3 May 2018.
- The representatives of (institutional) investors and some investment funds provide a list of priorities every year.

Management

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

Employees

- The Central Works Council has discussed during the meeting with a delegation of the Supervisory Board the CSR policy as part of the Annual Report.
- Sub-issues are managed by setting up various steering groups for CSR themes.

- Through employee satisfaction surveys.
- Via trainings and educations, among others at confidential officers.
- Via internal communication channels between our subsidiaries.

Customers and suppliers

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

Stakeholders dialogue (see report Executive Board)

External rating information platforms

- By providing information on external information platforms, we can see which information certain target groups consider relevant so that we can adjust our internal information provision accordingly.

Experts / knowledge sessions

- We have gathered knowledge about CSR developments through meetings with experts in the field of sustainability themes.

CSR IN THE ORGANIZATION

To safeguard the CSR policy, the Executive Board is directly involved in CSR developments within the TKH organization and personal targets are linked to CSR performance (see also Remuneration Report of the Executive Board). TKH's Company Secretary (also Compliance Officer and member of the Management Board) is responsible for developing and implementing CSR for the TKH Group. CSR is a standard item on the agenda at meetings of the Management Board, on which the Company Secretary has a seat. There is close collaboration with the Director Finance & Control, who is also a member of the Management Board, due to reporting on CSR issues at the subsidiaries. There is also close cooperation with TKH's Director Internal Audit in relation to his auditing of CSR themes during the audit reviews.

New CSR initiatives are preferably developed in working groups. This expedites the support within the Group and makes implementation more efficient and effective. Initiatives in the value chain are always attended by commercial managers in order to guarantee a pragmatic approach. In conducting the stakeholder dialogues, we work with executives from our subsidiaries, business line managers, account managers and HR. Contacts with the confidential officers rely on the operation of the TKH code of conduct and the associated Whistleblowers regulations. With purchasing managers, themes are discussed that concern the code of supply. The Company Secretary, responsible for CSR, is frequently involved in these discussions.

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

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

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GLOSSARY AND ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures are measures TKH uses to measure and monitor its operational performance. These measures are used in this Annual Report 2018 but are not defined in any law or in IFRS. The European Securities and Markets Authority (ESMA) have issued guidelines that apply as from 3 July 2016 for the use and disclosure of alternative performance measures. The terms TKH sees as an alternative performance measure are included in this chapter of the Annual Report. The alternative performance measures are marked with * and includes a definition as required by the ESMA directive.

BEPS (Base Erosion and Profit Shifting) the negative effect of tax evasion. The OECD works on behalf of the G20 two years on the so-called BEPS project, which makes recommendations to prevent such harmful tax practices. The aim of the plan is that profits are taxed in the country in which the activities are performed and the added value is created.

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

Cable accessories products with a direct relation to cable and the installation of cable. For example attachment materials (cable caterpillars, swivels, cable terminals, connectors), coding and

marking systems (markers, heat shrink tubing, connectors) and tools (cutting, stripping and crimping of lugs).

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

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

cGMP a quality assurance system for the human and veterinary pharmaceutical industry, the cosmetics industry and the food industry.

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

Data communication communication of digital information between computers.

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

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

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

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

Electro technical engineering / electronics is engaged in active and nonlinear components (transistors, electron tubes and other semiconduc-

tors). In electrical networks, active components resistors, capacitors, coils are merged into switches.

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

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

Geofencing the virtual delimitation of a geographic area or specific locations with Ctrack track & trace software.

ICT (Information and Communication Technology) integration between information technology, that is to say computers, and data and telecommunication. Indoor telecommunication facilities in the home.

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

Industry 4.0 improving the efficiency of production through the integration of machinery to the internet.

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

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

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

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

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

LoRa (Long Range, Low Power) IoT connection specially developed to exchange small amounts of information between objects and systems. One LoRa module can send data for more than 10 years on just 2 batteries.

Narrowband IoT (NB-IoT) a new standard for connecting IoT projects.

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

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

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

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

Optical fibre cable is a cable with one or more coated conductors of very pure glass for the transfer of signals on a carrier wave of light; applied in data and telecommunication.

Optical fibre production optical fibre is produced in a 25-meter high drawing tower in conditioned ultraclean conditions.

Outdoor telecom telecommunication facilities outside the home.

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

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

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

Recyclate collective name for all kinds of products that are the result of a completed recycling process and can be applied without further processing in a production process of semi-finished or finished products.

ROCE Return On Capital Employed, being the EBITA for the last twelve months divided by capital employed at the beginning of the period plus capital employed at the end of the period divided by two.*

ROS (Return on Sales) EBITA divided by total revenues as a percentage.*

Solvency percentage of the equity relative to the total liabilities.*

Specialty cable cable for specific applications or custom made for the customer. These cables are often highly flexible, resistant to chemicals or combine different kinds of optical fibres with copper conductors.

Subsea cables consist of three aluminum or copper conductors for conveying the generated energy and a fibre optic cable, intended to send measurement data to the connected systems.

Sustainable Development Goals (SDGs) In 2015, 193 countries committed to the Sustainable Development Goals of the United Nations (SDGs). These goals form an action plan for a sustainable world without poverty.

System concepts TKH increasingly specializes in the integration of individual components into total systems. Such systems offer the client a lot of added value and operational safety.

Technology the systematic way of applying new, scientific or other organized knowledge for practical purposes. Further information about the TKH core technologies -vision & security, mission critical communication, connectivity and smart manufacturing- can be found in the report of the Executive Board.

Telecommunication infrastructure the entity of cables, plugs, cabinets, etc. that is required to connect telephone, Internet, mobile phone exchanges.

Telecom Solutions consists of solutions ranging from a basic infrastructure to home networking applications, both for outdoor telecom and indoor telecom (ICT) markets.

Total solution by acting as a one-stop-shopping supplier for projects, the subsidiaries of TKH deliver a complete packet of products, including advice, project management, installation, training and maintenance.

Total Cost of Ownership (TCO) the sum of Capex and Opex. The Capex expenditure is often high initially but over the life of a system, the Opex will eventually be the largest cost component of TCO.*

Vertical market is a market in which goods and services are offered which is specific to an industry, trade, profession or other group of customers with specific needs. It differs from a horizontal market, where vendors offer a wide range of goods and services to a large group of customers with a wide range of needs. Further information on the vertical growth markets of TKH -Fibre Optic Networks, Care, Tunnel & Infra, Parking, Marine & Offshore, Machine Vision and Tire Building Industry- can be found in the report of the Executive Board.

The Annual Report in English is a translation of the official Dutch version. In the event of differences and/or inconsistencies, the official Dutch Annual Report 2018 will take precedence.

Editor and text

TKH Group N.V., Haaksbergen (Section: Jeroen Dekker)

Design

Monter, Amsterdam

Photography

Mark Prins Fotografie (page 6, 40, 63)

Print

Drukkerij Tesink, Zutphen

Paper

This report is printed on FSC-certified paper.

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

21 March 2019



TKH Group NV

Spinnerstraat 15

P.O. Box 5

7480 AA Haaksbergen

The Netherlands

T +31 53 573 29 00

F +31 53 573 21 80

E info@tkhgroup.com

I www.tkhgroup.com

