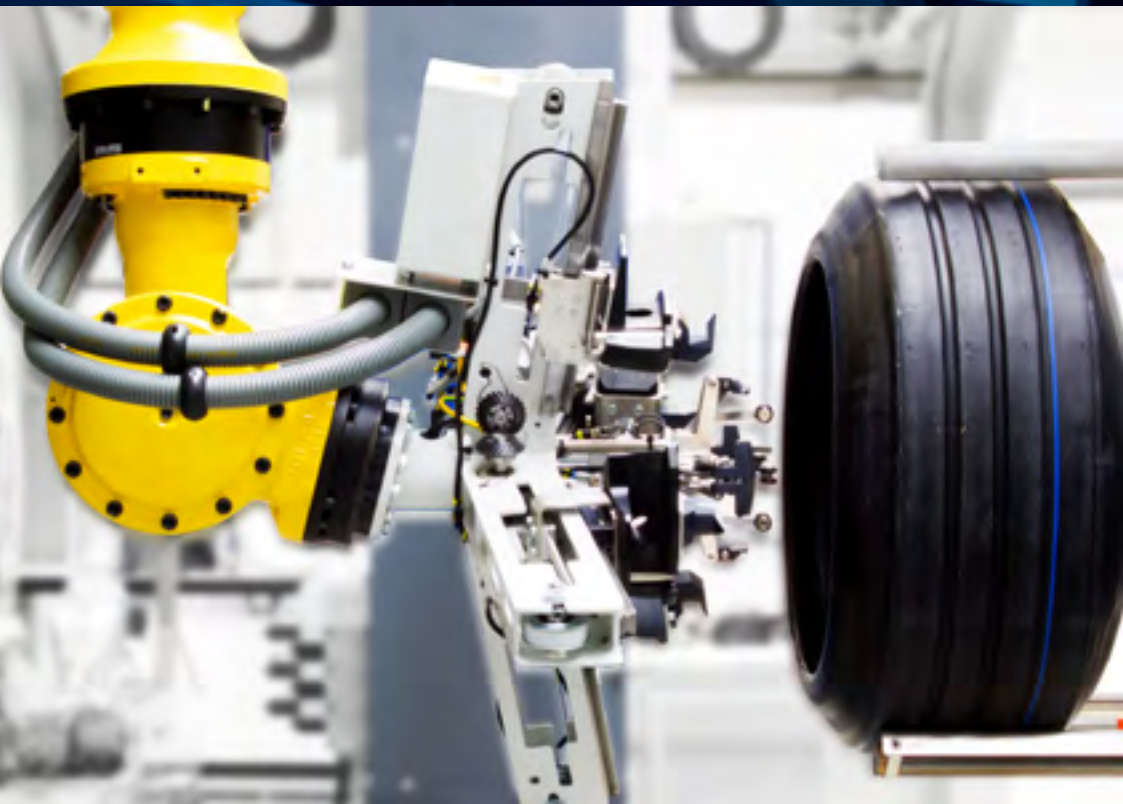




# ANNUAL REPORT



# 2019

Smart Technologies <





# CONTENT

## TKH AT A GLANCE

3	Profile
4	TKH at a glance
5	2019 Highlights*
6	Message from the CEO
<b>8</b>	<b>BUSINESS &amp; MARKETS*</b>
9	Business segments
10	Core technologies
11	Vertical growth markets
<b>12</b>	<b>STRATEGY*</b>
12	Strategy
15	'Simplify & Accelerate' program
<b>17</b>	<b>EXTERNAL ENVIRONMENT*</b>
18	Trends & developments
20	Stakeholders
22	TKH and the Sustainable Development Goals
24	TKH in the supply chain
25	Competitive landscape
<b>26</b>	<b>LONG-TERM VALUE CREATION*</b>

## DEVELOPMENTS & RESULTS\*

29	Financial and non-financial results
<b>30</b>	<b>INNOVATIVE &amp; VALUE CREATION</b>
30	General developments
33	Financial developments
35	Developments per business segment
39	Acquisitions, investments and divestments
41	Dividend proposal
<b>42</b>	<b>TALENT EMPOWERMENT</b>
<b>50</b>	<b>BEING RESPONSIBLE</b>
<b>59</b>	<b>OUTLOOK</b>

## GOVERNANCE

61	Members Executive Board*
62	Members Supervisory Board
<b>63</b>	<b>REPORT OF THE SUPERVISORY BOARD</b>
63	Report of the Supervisory Board
72	Remuneration report
<b>80</b>	<b>CORPORATE GOVERNANCE*</b>
80	Corporate Governance at TKH
<b>86</b>	<b>RISK MANAGEMENT*</b>
95	Management statement
<b>96</b>	<b>THE TKH SHARE*</b>

## SECTION

<b>99</b>	<b>THE POWER OF TKH</b>
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## SUMMARIZED FINANCIAL STATEMENTS

127	Consolidated balance sheet
128	Consolidated statement of profit and loss
129	Consolidated statement of comprehensive income
130	Consolidated statement of changes in group equity
131	Consolidated cash flow statement
132	Notes to the summarized financial statements

## OTHER INFORMATION

140	Regulation for profit appropriation
140	Proposal for profit appropriation
141	Independent auditor's report
142	Stichting Administratiekantoor TKH Group
143	Stichting Continuïteit TKH
144	Operating companies
146	Sustainability statements and reporting system
152	Glossary and alternative performance measures
154	Ten years overview

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

## PROFILE

# TKH GROUP

Technology firm TKH Group NV (TKH) focuses on high-end innovative technologies in high growth markets within three business segments: Telecom, Building and Industrial Solutions.

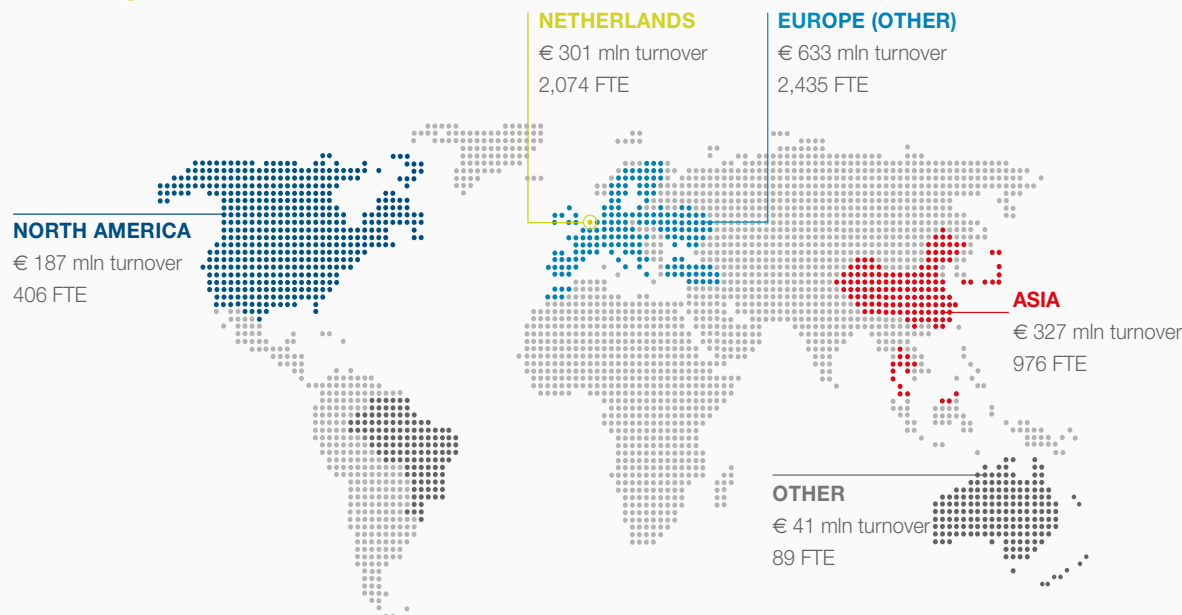
Through a combination of technologies across the three business segments, TKH offers superior solutions that support that increase the efficiency, safety and security of its customers. The technologies are offered together with software to create smart technologies and one-stop-shop solutions with plug-and-play integrated technologies.

TKH operates on a global scale. Its growth is concentrated in Europe, North America and Asia. With 5,980 employees (FTE), TKH realized a turnover of € 1.5 billion in 2019.

# MISSION

TKH aims to be a leading innovative technology niche player that through combinations of its four core technologies, offers total 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.

## TKH WORLDWIDE



## BUSINESS SEGMENTS

### TELECOM SOLUTIONS

201 € MLN

### BUILDING SOLUTIONS

745 € MLN

### INDUSTRIAL SOLUTIONS

544 € MLN

## CORE VALUES TKH GROUP

- 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.



# 2019 HIGHLIGHTS

## FINANCIAL

### TURNOVER

Turnover increases by 2.2% to  
€ 1,489.6 million, organic -1.9%.

1,489.6 € MLN

### EBITA

EBITA before one-off income and  
expenses declines by 1.5% – decline  
in Industrial Solutions due to market  
conditions, increase in Telecom and  
Building Solutions.

172.5 € MLN

### NET PROFIT

Net profit before amortization and one-  
off income and expenses attributable  
to shareholders declines by 7.8% to  
€ 105.3 million – in line with the  
previously communicated bandwidth  
(€ 102 - € 108 million).

105.3 € MLN

### DIVIDEND PROPOSAL

Dividend proposal: € 1.50 per  
(depository receipt of an) ordinary share  
(2018: € 1.40).

1.50 €

## STRATEGIC

### SIMPLIFY & ACCELERATE

Good progress 'Simplify & Accelerate'  
program.

- Divestment activities on schedule:  
€ 250 million turnover of the targeted  
€ 300 to € 350 million in divestments  
already realized.
- Integration of vision and security  
businesses proceeds well.
- Growth in order book and outstanding  
quotations in subsea and Airfield  
Ground Lighting (AGL) activities.
- Turnover share from vertical growth  
markets > 60%.

TURNOVER SHARE  
VERTICAL GROWTH  
MARKETS > 60 %

### ACQUISITIONS

Acquisitions of innovative technology  
companies:

- Commend AG.
- ParkEyes.
- SVS-Vistek.
- FocalSpec.

### CREDIT FACILITY

Increase in existing committed credit  
facility to € 500 million, from € 350  
million, with unchanged conditions and  
duration.

500 € MLN

**MESSAGE FROM THE CEO**

# TKH ON THE MOVE

The world is changing rapidly, and TKH is changing with it. By implementing our plans in an enterprising and energetic manner, we have achieved many of our objectives. Our innovations have advanced our technological prowess, but have also been a success in terms of market penetration. Important examples are the advances we have made in machine vision for 5G smartphones, the UNIXX tire-building technology, subsea cable systems and the CEDD/AGL connectivity technology. All of these have created opportunities that lay a strong foundation for growth and value creation in the future.



We took an important step with the launch of a new phase in our strategic transformation program, named 'Simplify & Accelerate'.

It was a turbulent year, as geopolitical and social developments led to a cautious approach to investment by businesses in some market sectors. A caution that was driven by uncertainty about economic growth and the impact of the trade restrictions imposed by the world's superpowers, and at micro level by the problems with nitrogen and PFAS in the Netherlands. Under these circumstances, there were periods when we decided to maintain capacity at a higher level than was necessary at that moment. These decisions are crucial for safeguarding the correct balance in the short-term and medium-term results.

We took an important step with the launch, in the middle of 2019, of a new phase in our strategic transformation program, named 'Simplify & Accelerate'. The execution of the program has been a major priority and it is progressing smoothly. We are well on the way to meeting the new profit targets and accelerating the rate of value creation at TKH. Despite the difficult conditions in some markets, in the second half of the year the ROS was 12.9% and is therefore approaching our new target for the ROS of at least 15%.

As part of the transformation program, we are divesting activities in which the margins are naturally small or which have only limited potential for organic growth. A large proportion of the envisaged € 300 to € 350 million in turnover from divestments has already been realized. We have also reduced the number of operating companies through a process of integration based on economies of scale. These measures leads to a simplified organizational structure, with fewer companies and a sharper focus on activities with above-average potential in terms of value creation. What is special is, how our operating companies have taken initiatives, in addition to their planned activities, to complement the 'Simplify & Accelerate' program and that the program enjoys broad support and has generated inspiration and energy within our organization.

Sustainability is growing steadily more important and we reflect that by pursuing a consistent policy in relation to Corporate Social Responsibility. We take the view that sustainability is the key to all our policy decisions and is the source of our ability to create a society fit for the generations to come. That in turn calls for intensification of the collaboration with chain partners so that we can promote sustainability in a wider context. One of the ways in which sustainable developments can be embedded more deeply in society is by implementing the Sustainable Development Goals (SDGs).

In addition to our desire to offer our employees an inspiring working climate, their health and safety is our greatest concern. Unfortunately, in December we were confronted with a fatal accident at our subsea cable factory in Lochem, where a highly valued and passionate colleague died. An incident that has a major impact on the family and the entire organization.

We are grateful to our customers, business partners, Supervisory Board and shareholders and holders of depositary receipts of shares for the trust they have shown in TKH and the support they give us to pursue the company's further growth and its ambitions.

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



# BUSINESS & MARKETS

TKH focuses with its segmentation on the business segments Telecom Solutions, Building Solutions and Industrial Solutions. The TKH core technologies -vision & security, mission critical communication, connectivity and smart manufacturing- are linked to each other to total systems, which are positioned within these three business segments. TKH focuses on seven vertical growth markets -Fibre Optic Networks, Care, Tunnel & Infra, Parking, Marine & Offshore, Machine Vision en Tire Building Industry- where the (total) solutions are positioned as a 'one-stop-shop' for our customers.

## BUSINESS MODEL TKH GROUP

### VALUE CREATION

#### CORE TECHNOLOGIES



### INNOVATIONS >15%

#### BUSINESS SEGMENTS



### EFFICIENCY - COMFORT - SAFETY - SECURITY

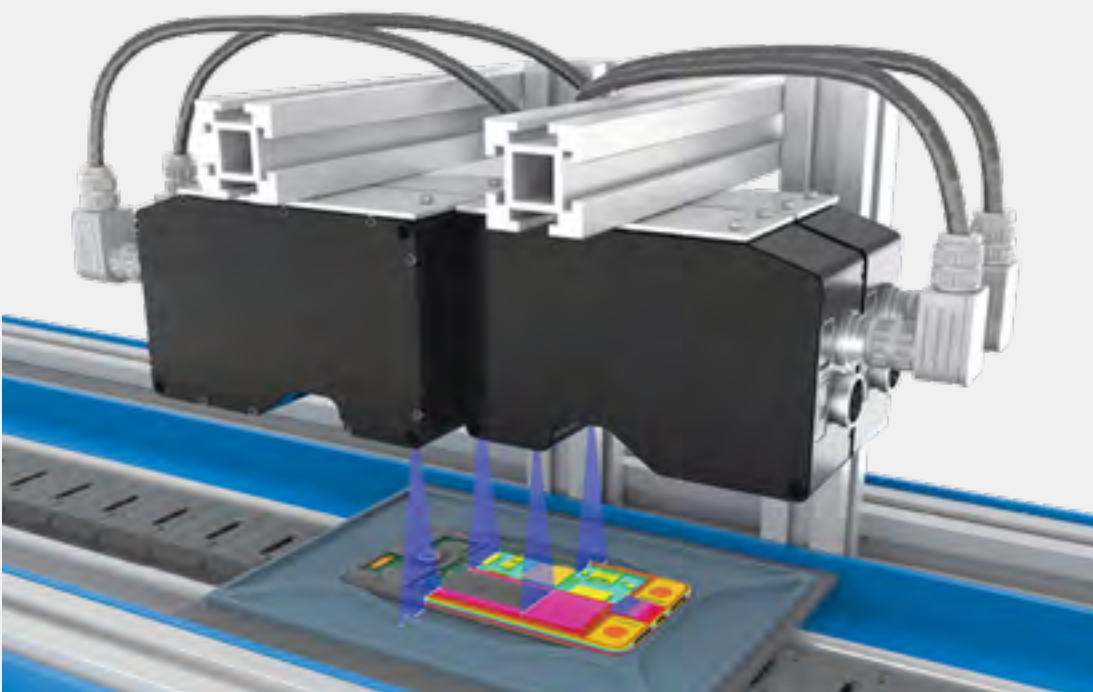
#### VERTICAL GROWTH MARKETS





# BUSINESS SEGMENTS

TKH focuses with its segmentation on Telecom Solutions, Building Solutions and Industrial Solutions. The four TKH core technologies are connected into total solutions within the three business segments.



## 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. 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.

## BUILDING SOLUTIONS

Building Solutions connects the core technologies vision & security, mission critical communications and connectivity in total solutions for security and communications applications in and around buildings as well as for industrial inspection, quality, product and process controls. We focus on efficiency solutions to reduce throughput times for the realization of installations within buildings, and on intelligent video, mission critical communications, evacuations, access (control) and registration systems for a number of specific sectors, including healthcare, parking, marine and offshore, tunnels and airports.

## INDUSTRIAL SOLUTIONS

The core technologies vision & security, connectivity and smart manufacturing are represented in Industrial Solutions. TKH develops, produces and delivers specialty cable and 'plug and play' cable systems. In a number of specialized industrial sectors, such as tire manufacturing, robotics, medical and machine building industries we deliver innovative, integrated manufacturing systems where TKH's know-how of automation of production processes and improvements in the reliability of production systems gives the company the differentiating potential.

# CORE TECHNOLOGIES

The 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, economies of scale 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.



## 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), consumer electronics and in scientific research. Our security technology makes it possible to control and monitor urban environments in relation to safety, comfort and efficiency, and includes alarms and mission critical communication systems, access, registration and evacuation systems. For the mobility market, camera 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. The communication technology is often used in combination with our vision & security technology from our group so that through our technologies, we promote among others the efficiency, safety and security in tunnels, car parks, (professional) health 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 cable systems for the most diverse applications in high-tech environments such as the industrial, marine & offshore wind and medical sectors. Our advanced connectivity technology for contactless energy and data distribution (CEDD) for airfield ground lighting systems is an advanced connectivity system that consists of both hardware components and software, which respond to specific applications at airports.

## SMART MANUFACTURING

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

# VERTICAL GROWTH MARKETS

Within the three business segments, TKH focuses with its solutions 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 in them and what their requirements are. We aim in particular a high return on investment for our customers. In the next three to five years, we expect to achieve turnover growth of € 300 to € 500 million in the seven vertical growth markets.

## FIBRE OPTIC NETWORKS

TKH develops, produces and supplies comprehensive optical fibre networks which, in addition to optical fibre cables, also include connectors, pipes, sleeves, fibre management systems, security and robotic systems and other accessories. Everything can be installed plug-and-play so projects can be completed efficiently and on time. 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 that meet the high safety requirements, which means that airports, tunnels and roads can be opened safely and on time. For the mobility market, cameras and solutions are supplied in the field of intelligent traffic systems that are crucial for safety applications. The medium and high voltage energy cables for energy networks respond among others to the demand for alternative energy supplies. We supply advanced connectivity technology for contactless energy and data distribution for application at airfields.

## 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.

## 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 platforms, ships and luxury yachts. 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 digital processing of visual information is used to monitor, control or adjust industrial processes. We supply to the robotics, mechanical engineering, consumer electronics, medical and automotive industries.

## TIRE BUILDING INDUSTRY

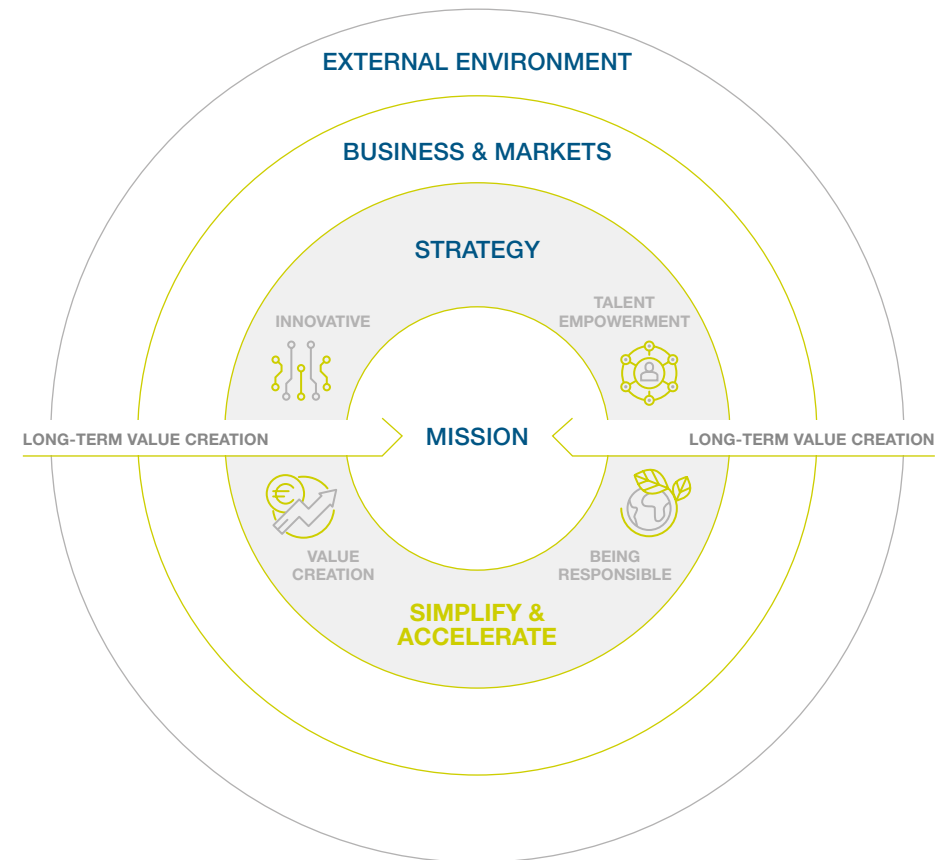
With decades of experience, TKH has developed and refined the production technology for tire building systems which is required to produce superior tires for cars and trucks. TKH develops, manufactures, supplies and installs innovative tire building systems which make it possible to manufacture tires with specific properties in a highly efficient way. The highest possible form of automation and monitoring of the production processes with associated "track and trace" requirement is possible via our own camera inspection technology.



# STRATEGY

TKH's strategy focuses on technology leadership with four related core technologies in three business segments. As part of the strategy process, four priority areas have been defined: Innovative, Value Creation, Talent Empowerment and Being Responsible. Based on these pillars, we have determined our strategic direction and have defined specific objectives how we implement the strategy process.

## STRATEGY PROCESS





## INNOVATIVE

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 comprehensive systems 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. As a result, 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. We focus on securing a leading position in niche markets. Within our three business segments we have defined seven vertical growth markets in which we expect to achieve growth of between € 300 million and € 500 million in the next three to five years.



## TALENT EMPOWERMENT

OUR PEOPLE REPRESENT OUR MOST IMPORTANT CAPITAL AND ARE THE DRIVING FORCE BEHIND OUR SUCCESS.

Our market strategy demands qualified staff. We offer an inspiring, safe and healthy working environment and seek to have an open business culture in which our employees are acknowledged and heard. Short lines of communication, delegated authority and entrepreneurship are typical of the way in which we work at TKH. The diversity of our workforce will bolster the success of our strategy. Exercising due care as an employer ensures that we hold appeal in this capacity. Combined with an innovative, entrepreneurial culture, this provides us with a healthy starting point, enabling us to fill vacancies rapidly with people having an appropriate profile. We devote a great deal of attention to this, also having regard to the increasing scarcity of qualified technicians, in respect of which it will be more challenging to fill such vacancies in the years ahead. The implementation of this strategy is strongly related to create a professional and flexible organization where employees are given the opportunity to pursue their ambitions and experience further self-development.



## VALUE CREATION

WE USE OPPORTUNITIES FOR GROWTH IN A TARGETED MANNER AND LIMIT (FINANCIAL) RISKS.

Healthy balance sheet ratios and a strong operating cash flow are top priority in the development of the company. We wish to achieve an above-average annual increase in earnings per share, and a net debt/EBITDA ratio of no more than 2.0. We will expand through organic growth and acquisitions. In geographical terms the focus for growth is on Europe, North America and Asia. In the case of acquisitions the emphasis is on structurally healthy companies which are aligned with our four core technologies and associated vertical growth markets. We will seek between one and three acquisitions a year, each representing turnover of between € 10 million and € 50 million. In the period ahead the focus will mainly be on organic growth and the optimal integration of acquired businesses within the TKH organization. Due to the focus on operations with a large potential margin, the medium-term bandwidth for our ROS target is >15%. Our medium-term ROCE target is a bandwidth of 22% to 25%.



## BEING RESPONSIBLE

WE WOULD LIKE TO MAKE A CONTRIBUTION TOWARDS A SUSTAINABLE SOCIETY AND TO TAKE OUR RESPONSIBILITY IN THIS RESPECT.

TKH would like to make a contribution towards a sustainable society, so as to ensure that not only the effect of business decision on profitability is considered but also its impact on the environment and our reputation. We attach a great deal of importance to the principles of good governance: integrity, transparency, accountability and adequate oversight. We ensure that our staff act with integrity and have drawn up clear guidelines. A 'zero-tolerance' policy is also pursued within the supply chain in relation to matters of principle, such as fraud, bribery and corruption. TKH constantly focuses on risk awareness as an integral part of its culture and applies different systems to embed risk awareness in the organization thoroughly in order to avoid and manage risks as far as possible.

## STRATEGIC CONFRONTATION MATRIX

### STRENGTHS

- Strong (niche) positions in defined vertical growth markets.
- Customer-specific total solutions - in combination with technology platforms usable for multiple applications.
- Benefits of economies of scale by spreading technologies across product and market combinations and in geography.
- Good reputation and financial strength.
- Successful acquisition policy - good integration of (acquired) companies.
- Organization model with local entrepreneurship and innovative capacity.
- Quality and involvement of employees.
- Interesting employer through profiling entrepreneurship and development opportunities.

### IMPROVEMENT AREAS

- TKH is seen as an attractive company but has a complex organization, consisting of many activities.
- Brand awareness in conservative new markets where TKH wants to expand its market position with disruptive innovative technology.
- Making better use of cohesion and scale from local entrepreneurship.
- Give operational excellence the highest priority for implementation in all business units.
- Give capital allocation more focus on maximum value creation for medium- and long-term.

### PRIORITIES

#### Reducing the number of activities that have limited opportunities for value creation

- Activities with low organic growth opportunities and relatively low gross margins.
- Non-high-end technology oriented or positioned in an environment where a larger scale is needed in the long-term to support continuity.
- Mainly positioned in non-vertical growth markets.
- Be prepared for divestments with a profit improvement program and potential for high value creation on short-term, but belonging to non-core activities or to activities with low margins.

#### Integration of operating companies

- Focus on integration - instead of coordination with strong local entrepreneurship.
- Reinforced R&D, sales and marketing within the integrated companies with new leadership.
- Strengthening and expanding of TKH branding.
- Reduction of the number of operating companies with at least 10 - 15 companies.
- Implementing more operational excellence programs.

#### Develop a less complex business structure and communication structure

#### Increase ROS target to >15%

- Divestments of activities with low margins and limited organic growth potential.
- Profit improvement to bring important innovations to maturity and intended profitable business.
- Further focus on vertical markets with above average margins – investing the revenues of the divestments in more profitable vertical growth markets.
- Limit the number of new 'start-up' projects in the next 1-3 years.

#### Accelerate organic growth by increasing the share of vertical growth markets

- Divestment of activities with low organic growth leads to an increased average autonomous growth.
- To invest revenues from divestments in vertical growth markets.
- Intensify the implementation of new business developments.



# ‘SIMPLIFY & ACCELERATE’ PROGRAM

In order to bring growth and profitability to an even higher level, a strategic transformation program was introduced in June of the year under review, under the name ‘Simplify & Accelerate’. The program aims at simplifying the organization and making better use of economies of scale. Ultimate goal of the strategy program is an acceleration of organic growth linked with better profitable activities with a higher growth potential.

Simplification of the business structure is achieved by implementing an active divestment program, aimed at activities with a lower profit potential. The divestment program comprises a total turnover of € 300 - € 350 million.

By integrating companies with a strong cohesion in activities and product portfolio, not only efficiency will be achieved in the field of R&D, commerce, finance and overhead. Ultimately, this simplification will lead to a simplified business structure with clear focus areas where acceleration of TKH's performances is possible. It brings the desired focus to the realization of further value creation. It will lead to an even better bundling of knowledge in product development and will lead to efficiency and economies of scale. This not only benefits our financial results but also provides competitive advantage.

The implementation of this strategy program will have a positive effect on both the return on sales (ROS) and the return on capital employed (ROCE). The medium-term objectives have therefore been increased, for the ROS from 12-13% to at least 15%. The target for the ROCE has been raised from 21-23% to 22-25%.



# STRATEGIC ROADMAP

## MISSION

A leading innovative technology (niche) player that creates comprehensive best-in-class solutions which constantly exceed customer expectations.

A solid investment for shareholders.

A responsible and attractive employer.

Doing business in a socially responsible manner.

## STRATEGIC PILLARS

### INNOVATIVE

Constant attention to innovation produces a range of products and services that guarantee technologically advanced solutions.



### VALUE CREATION

We use opportunities for growth in a targeted manner and limit (financial) risks.



### TALENT EMPOWERMENT

Our people represent our most important capital and are the driving force behind our success.



### BEING RESPONSIBLE

We would like to make a contribution towards a sustainable society and to take our responsibility in this respect.



## STRATEGIC PRIORITIES

### SIMPLIFY

Reducing activities that have limited possibilities for value creation.

Simplification of the business structure through the integration of operating companies.

Development of a less complex business and communication structure.

### ACCELERATE

Focus on activities with above-average growth potential and return contribution.

Accelerate organic growth through an increase in share of vertical growth markets and use of economies of scale and synergies.

## STRATEGIC OBJECTIVES medium-term

### INNOVATIVE

- Innovations: >15% of turnover.
- TKH brand reinforcement and expansion.
- Increase brand awareness in vertical growth markets.

### VALUE CREATION

- Vertical growth markets:  
+ € 300 - € 500 million (3 - 5 years).
- ROS: >15%.
- ROCE: 22-25%.
- Net debt/EBITDA: <2.0.

### TALENT EMPOWERMENT

- Education per FTE: >16 hrs./year.
- Employee satisfaction: >7.1.
- Illness rate: <4.0%.
- Lost Time Injury Frequency (LTIF): <1.0.

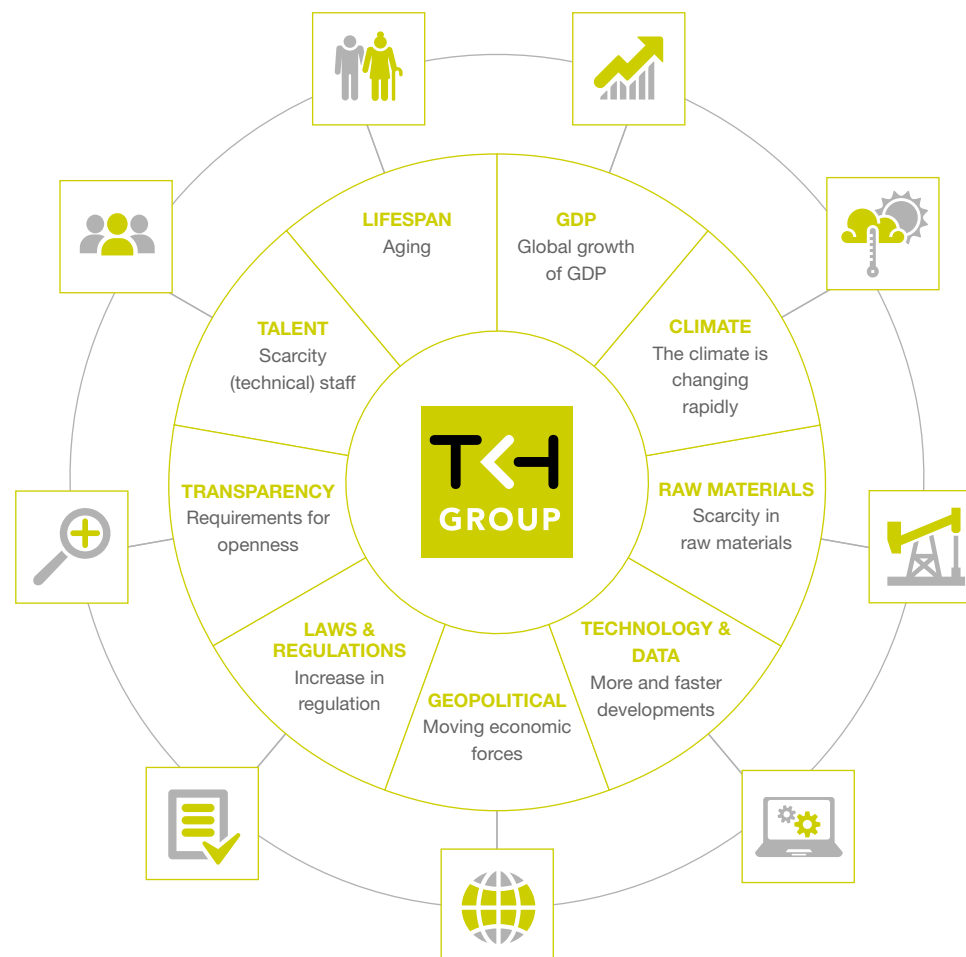
### BEING RESPONSIBLE

- CO<sub>2</sub> emission: -2.5% (vs 2015).
- Waste: <5.0%.
- Recycling: >50%.
- Customer satisfaction: >7.8.
- No breaches code of conduct.
- Community investments: 0.2% - 1% of net profit before one-off income and expenses.

# EXTERNAL ENVIRONMENT

The environment in which TKH operates is dynamic and constantly changing. In addition to developments in the markets and sectors in which we are active, general national and international events affect our daily operation. Trends are the indicator of future developments and give us insight into the opportunities and risks for the medium- and long-term. It is relevant to anticipate these trends and to align them to the wishes and requirements of our stakeholders, such as shareholders, customers and employees.

## TKH AND ENVIRONMENTAL FACTORS





# TRENDS & DEVELOPMENTS

People, economies and markets are influenced by a number of fundamental social trends. Such megatrends are -amongst other things- 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 accordance with issues which are strategically relevant to TKH.



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

- The development of 5G is producing even faster 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 stimulating 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 connected 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 go along with this.
- Scarcity on the labour market (knowledge and capacity) can act as a brake on certain sectors.

## TKH WISHES TO CONTRIBUTE TO A SUSTAINABLE SOCIETY.

- Greater awareness of the need to counteract the effects of climate change.
- Global climate agreements demand energy systems sourced from renewable, sustainable sources, such as wind and solar energy.
- Raw materials are becoming scarcer and 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.

## GROWTH DRIVERS

### FIBRE OPTIC NETWORKS

- The internet has now become a utility, just like gas, water and electricity. Optical fibre as a major transport medium for the enormous need for bandwidth and transmission capacity is no longer an indispensable part of the society.
- Developments such as the Internet of Things, Industry 4.0 and the 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 the 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.
- The acceptance of robotization in the 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 of technical equipment in tunnels, amongst other places.
- Growing demand for technologies in order to comply with strict requirements: evacuation - communication - detection - identification - safety - infrastructure availability is increasing.

### PARKING

- Income from parking garages is under pressure due to reduced inbound and outbound traffic flows.
- Provide parking owners and operators with information more quickly and efficiently through a visual dashboard.
- The use of technology leads to improvements in efficiency, safety, access and payment options - great interest in applying technology in smaller parking garages.
- Boost the capacity utilization rate and income thanks to differentiated parking fees - CO<sub>2</sub> reduction via parking guidance technology.

- Call for greater comfort for parking attendants.
- The emergence of frictionless parking through technology - Artificial Intelligence application for automatic call handling.

### MARINE & OFFSHORE

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

### MACHINE VISION

- Increase in demand for vision technology thanks to the trend towards industrial automation and robotization as well as continued demand for higher productivity, improvement of product quality and production processes.
- Vision technology as an alternative to control production systems and for detection, inspection and identification of manufactured products.
- A sharp increase in new applications in which vision technology is used.
- Because of strict regulations governing the 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

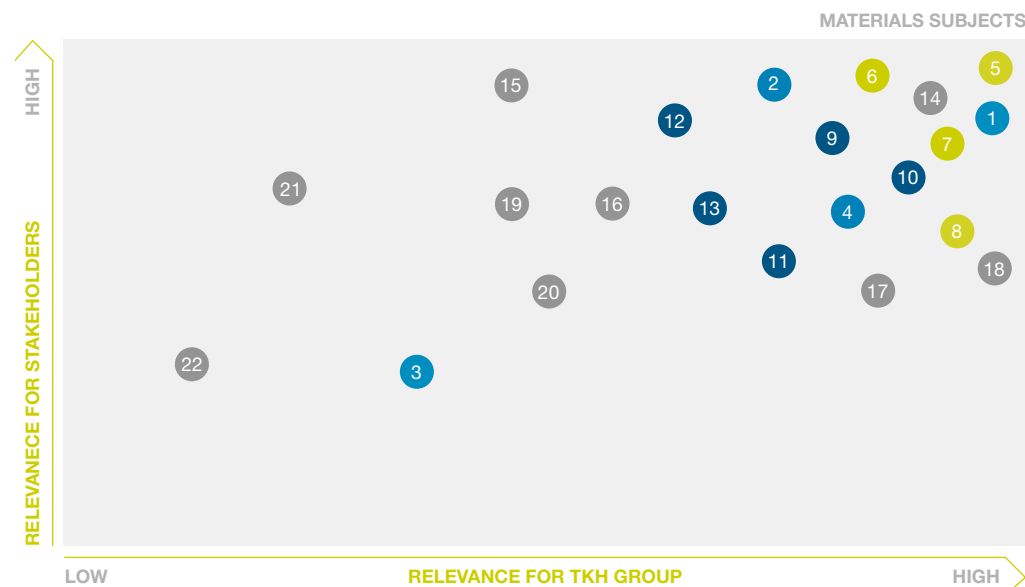
- High priority for the entire tire building industry to replace existing technology with the emphasis on high productivity, efficiency, the reduction of waste, application of new materials, improved quality, 'track & trace' of tire components within tire manufacturing and smaller batches.
- Strong increase in the number of types of passenger car tires requires more flexible manufacturing methods.
- The trend towards even larger tire dimensions and towards safer, better quality tires is leading to a demand for technological development.
- A reduction of working capital requirements in the supply chain - stimulate local manufacturing in the tire building industry.
- 'Eyes and hands off' manufacturing: production systems offering greater productivity and operator independence.

# STAKEHOLDERS

Our stakeholders are those groups and individuals that directly or indirectly influence, or are affected by, the activities of TKH and its operating companies. In the context of our business operations and based on our position in the supply chain, we are in regular dialogue with our stakeholders. By entering into a dialogue with our stakeholders, we share and test our vision, our strategy and our expectations with them, with starting point, being able to further sharpen these themes in our business operations. When conducting stakeholder dialogues we often work together with our operating companies where customers, suppliers or employees are concerned.



## MATERIALITY MATRIX



### INNOVATIVE

- 1 Innovation & technologies
- 2 IT Security & Privacy
- 3 Chain initiatives
- 4 Portfolio management

### VALUE CREATION

- 5 Financial objectives
- 6 Dividend policy
- 7 Share price development
- 8 Responsible tax policy

### TALENT EMPOWERMENT

- 9 Good employment practices
- 10 Health & safety
- 11 Education & training
- 12 Diversity in workforce
- 13 Sustainable employability

### BEING RESPONSIBLE

- 14 Integrity
- 15 Climate change
- 16 CO<sub>2</sub> reduction
- 17 Waste reduction
- 18 Customer satisfaction
- 19 Human rights
- 20 Community investments
- 21 Social responsible purchasing
- 22 Local presence

The materiality matrix is composed of issues that are material to TKH and our stakeholders. The horizontal axis depicts a scale of material subjects important to the TKH organization. The vertical axis ranks the subjects that our stakeholders believe are important. The greater the influence or relevance of a subject, the more material it is. By assigning a specific value to the subjects, 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 subjects need to be raised or lowered.



## STAKEHOLDERS DIALOGUE

	RELEVANCE TO TKH	RELEVANCE TO STAKEHOLDERS AND MOST IMPORTANT EXPECTATIONS	MEANS OF COMMUNICATION	KEY TOPICS IN 2019	SUPPORTIVE TO OUR STRATEGY
EMPLOYEES	<ul style="list-style-type: none"> <li>Crucially important for the success of TKH.</li> <li>The company's ambassadors.</li> <li>Most important 'authorized capital'.</li> </ul>	<ul style="list-style-type: none"> <li>Good employment practices.</li> <li>Development opportunities and a good package of primary and secondary employment benefits.</li> <li>A safe and healthy working environment.</li> </ul>	<ul style="list-style-type: none"> <li>Internet and intranet.</li> <li>Employee magazine.</li> <li>Employee satisfaction survey.</li> <li>Meetings.</li> <li>Conferences and seminars.</li> <li>Webinars.</li> <li>Performance reviews.</li> </ul>	<ul style="list-style-type: none"> <li>Health and safety.</li> <li>Diversity.</li> <li>Sustainable employability.</li> <li>SDGs.</li> <li>IT &amp; Security / Privacy.</li> <li>Strategic transformation program.</li> </ul>	<ul style="list-style-type: none"> <li>Commitment to the diversity of the workforce.</li> <li>Learning organization.</li> <li>Boosts innovative capacity.</li> <li>Leadership and entrepreneurship.</li> <li>Integrity &amp; 'zero tolerance'.</li> </ul>
SHAREHOLDERS	<ul style="list-style-type: none"> <li>Investment through a shareholding in TKH, thereby strengthening our capital position.</li> </ul>	<ul style="list-style-type: none"> <li>Good return on investment with good dividend policy and long-term value creation.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Financial reporting and annual reports.</li> <li>General meeting of shareholders.</li> <li>Investor days.</li> <li>Capital Markets Day.</li> </ul>	<ul style="list-style-type: none"> <li>ESG.</li> <li>SDGs.</li> <li>Diversity.</li> <li>Strategic transformation program.</li> </ul>	<ul style="list-style-type: none"> <li>Long-term shareholdings.</li> </ul>
CUSTOMERS	<ul style="list-style-type: none"> <li>Buy products and services.</li> <li>Develop sustainable package of products and services through collaboration.</li> </ul>	<ul style="list-style-type: none"> <li>Offer innovative, high-tech technologies and total solutions.</li> <li>Good ROI for customers.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Events, symposia and trade fairs.</li> <li>Customer satisfaction surveys.</li> </ul>	<ul style="list-style-type: none"> <li>Value chain initiatives.</li> <li>Sustainable product portfolio.</li> <li>SDGs.</li> <li>Customer satisfaction.</li> </ul>	<ul style="list-style-type: none"> <li>Technological developments.</li> <li>Growth targets.</li> </ul>
SUPPLIERS	<ul style="list-style-type: none"> <li>Supply of services and products for our business operations.</li> </ul>	<ul style="list-style-type: none"> <li>Fair business practices and doing good business at market rates.</li> </ul>	<ul style="list-style-type: none"> <li>Business associates.</li> <li>Negotiations.</li> <li>Code of supply and site visits.</li> </ul>	<ul style="list-style-type: none"> <li>Value chain initiatives.</li> <li>Sustainable product portfolio.</li> <li>SDGs.</li> </ul>	<ul style="list-style-type: none"> <li>Technological developments.</li> <li>Sustainable procurement.</li> </ul>
ANALYSTS	<ul style="list-style-type: none"> <li>With the aid of analysis and research, prepare profiles and ratings on the basis of which investors can make a selection for their investments.</li> </ul>	<ul style="list-style-type: none"> <li>Honest and transparent communication about developments.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Financial reporting and annual reports.</li> <li>IR meetings.</li> <li>Capital Markets Day.</li> <li>Reporting.</li> </ul>	<ul style="list-style-type: none"> <li>Financial ratios.</li> <li>Sectoral developments.</li> <li>Strategic transformation program.</li> </ul>	<ul style="list-style-type: none"> <li>Long-term value creation and transparency.</li> </ul>
BANKS	<ul style="list-style-type: none"> <li>Financial service providers with the aid of which TKH is able to achieve its growth targets.</li> </ul>	<ul style="list-style-type: none"> <li>Creditworthy company that is appropriately balancing risks against returns and complies with contractual agreements.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Financial reporting and annual reports.</li> <li>Half-yearly discussions.</li> </ul>	<ul style="list-style-type: none"> <li>Financial ratios.</li> <li>Risk analysis.</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable funding policy.</li> </ul>
PUBLIC BODIES	<ul style="list-style-type: none"> <li>Act as initiator, facilitator of supply chain and other projects, and driver of sustainability initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>Boost the economic appeal in the region with respect to business office location and employment.</li> <li>Supply chain initiatives with a significant contribution to sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Network and thematic meetings.</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable and other developments in the region.</li> </ul>	<ul style="list-style-type: none"> <li>Strategic investment decisions.</li> </ul>
EDUCATIONAL AND KNOWLEDGE INSTITUTIONS	<ul style="list-style-type: none"> <li>Influx of new talent in order to compensate for a shortage of technical personnel.</li> </ul>	<ul style="list-style-type: none"> <li>Providing a challenging work environment with ample development opportunities.</li> <li>Providing traineeships – work experience.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Trade fairs and seminars.</li> <li>Social media.</li> </ul>	<ul style="list-style-type: none"> <li>Relevance of education (in relation to the relevant discipline).</li> <li>Profiling TKH as an interesting employer.</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable workforce.</li> <li>Learning organization.</li> </ul>
COMMUNITY AND SECTORAL ORGANIZATIONS (INCLUDING NGOs)	<ul style="list-style-type: none"> <li>Possess an extensive network and knowledge of the positions in the supply chain.</li> <li>Expertise in specific sectors.</li> </ul>	<ul style="list-style-type: none"> <li>Contribute ideas and start up joint ventures.</li> </ul>	<ul style="list-style-type: none"> <li>Internet.</li> <li>Reporting and reports.</li> <li>Annual reports.</li> </ul>	<ul style="list-style-type: none"> <li>SDGs.</li> <li>Climate change.</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable business operations.</li> <li>Consolidate social initiatives.</li> </ul>

# TKH AND THE SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs), introduced by the United Nations in 2015, are a blueprint for achieving a better and more sustainable future. It is a universal call to take action for a sustainable world. TKH recognizes the relevance of the SDGs, which indicate a clear direction how a more sustainable society can be achieved. It also requires a pro-active role for business and a new way of working within the chain.



In order to be able to make an effective and targeted contribution through the SDGs, we focus on those SDGs on which we have the greatest impact and to which we can contribute directly. In that context, we focus on four SDGs: sustainable and clean energy (7), decent work and economic growth (8), industry, innovation and infrastructure (9) and responsible consumption and production (12). We have compared these SDGs with our business operations and core activities and have looked at our entire value creation process.

Subsequently, existing KPIs were aligned with the SDGs so that insight was gained into what our contribution is and for which, additional actions are desirable. We also have analyzed the options in the chain. In the year under review, we explicitly discussed the SDGs in meetings with stakeholders. We explained the choice for the most relevant SDGs for TKH and it was assessed to what extent the chain partners have also an impact on these goals and can make a contribution. Topics such as recycling, sustainable product innovations and a learning organization were discussed.



## RELEVANCE SDGs

## STRATEGIC RELEVANCE TKH

## VALUE WHICH TKH CAN CREATE

## OUR CONTRIBUTION

7  
SUSTAINABLE AND  
CLEAN ENERGY

## BEING RESPONSIBLE

In the case of all of our operations we consider their impact on the environment.



- Sustainable customer and product portfolio.
- Innovation.
- CO<sub>2</sub> reduction.

In its daily operations TKH continuously pays attention to the reduction of its energy consumption and CO<sub>2</sub> emissions. We have been working for decades on reducing our energy consumption and CO<sub>2</sub> emissions and manage this by setting firm objectives. In addition, TKH develops technologies and solutions that contribute to energy efficiency and the use of renewable energy, such as sustainable cable systems for wind farms and CO<sub>2</sub>-neutral lighting systems.

8  
DECENT WORK AND  
ECONOMIC GROWTH

## TALENT EMPOWERMENT

We have an open business culture in an inspiring, educational working environment, in which our employees are acknowledged and heard. We offer a healthy working environment where safety is placed centrally.



## VALUE CREATION

Within our strategy, we make effective use of opportunities for growth and limit (financial) risks.



- Innovations.
- Financial targets.
- Responsible tax policy.
- Good employment practices.
- Vitality and safety.
- Diversity.

Employees can and should follow training courses enabling them to act effectively and to develop their skills further. Good primary and secondary working conditions are self-evident as well as a balanced workforce, taking into account diversity and inclusiveness.

Focus on activities with an above-average value creation potential stimulates growth and guarantees further continuity of operations. TKH conducts a responsible tax policy.

9  
INDUSTRY, INNOVATION AND  
INFRASTRUCTURE

## INNOVATIVE

Constant attention to innovation produces a range of products and services that guarantee technologically advanced solutions.



- 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 total solutions help our customers to operate more efficiently and we can contribute to a circular economy. For TKH, innovation is a strategic spearhead for further growth.

12  
RESPONSIBLE CONSUMPTION  
AND PRODUCTION

## INNOVATIVE

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



- Sustainable customer and product portfolio.
- Innovations.
- CO<sub>2</sub> reduction.
- Waste reduction and recycling.

In our business operations, we constantly focus on improving environmental performance. All production companies are certified for the ISO 14001 environmental management system and work according to the LEAN principle to prevent waste. In the design phase TKH selects its raw and other materials in such a way that they do not have any adverse effects on the environment. TKH discusses sustainability with its suppliers through its code of supply.

# TKH IN THE SUPPLY CHAIN

TKH develops and manufactures technologies, which are combined with each other to produce total solutions and are then positioned in predefined growth markets. A sound, efficient supply chain process is crucial, if we are to respond to environmental factors and customer requirements quickly and promptly. Support is provided for operational excellence in the supply chain by employing clearly defined guidelines for controlling our operating

procedures and pursuing a zero-tolerance policy with regard to issues of principle, such as the prevention of fraud, bribery and corruption, so as to ensure that work is done in accordance with the appropriate principles and arrangements. It is possible to conduct business sustainably by collaborating with our supply chain partners.

## CIRCULAR ECONOMY & RECYCLING

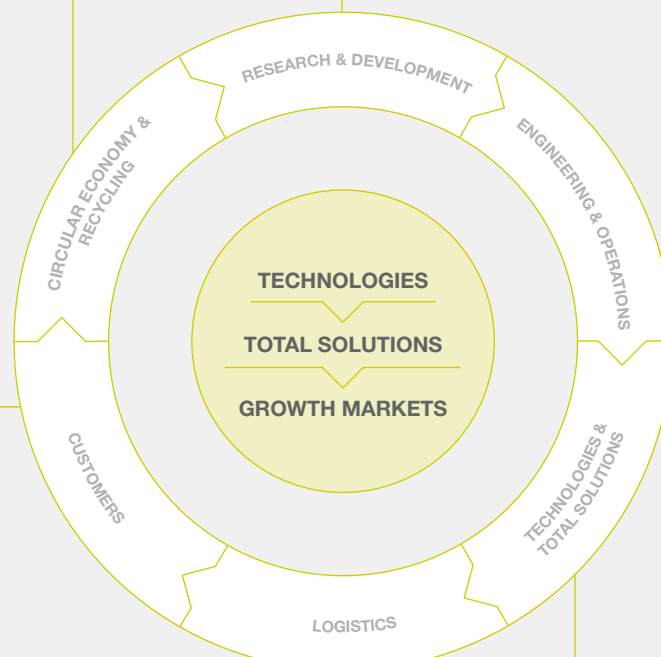
The composition of products constitutes the basis for optimal recycling. Returning materials, components and products to the appropriate value chain can give rise to a sustainable business model.

## CUSTOMERS

Thanks to our technology platforms and contribution of specific product and market knowledge, we are able to provide our customers with the best possible solutions offering a favorable return on investment (ROI) and desired efficiency effects. The scarcity of raw materials and energy wastage are issues which are discussed with our customers for the purposes of subsequently establishing specific programs for them.

## LOGISTICS

We have steadily centralized our logistical distribution operations. In the case of transport its impact on the environment in the distribution chain counts a great deal in addition to costs and duration.



## RESEARCH & DEVELOPMENT

In the course of product development and design we use methods and processes which make allowances for environmental aspects, such as energy savings and recycling. We also expect our suppliers to act in a sustainable way. In order to ensure that this occurs, we have incorporated our views into a code of supply.

## ENGINEERING & OPERATIONS

We employ operational management models that have been incorporated in an operational excellence program. By doing so, we seek to achieve the optimal performance of our operational processes and the effects envisaged in relation to efficiency, quality and safety.

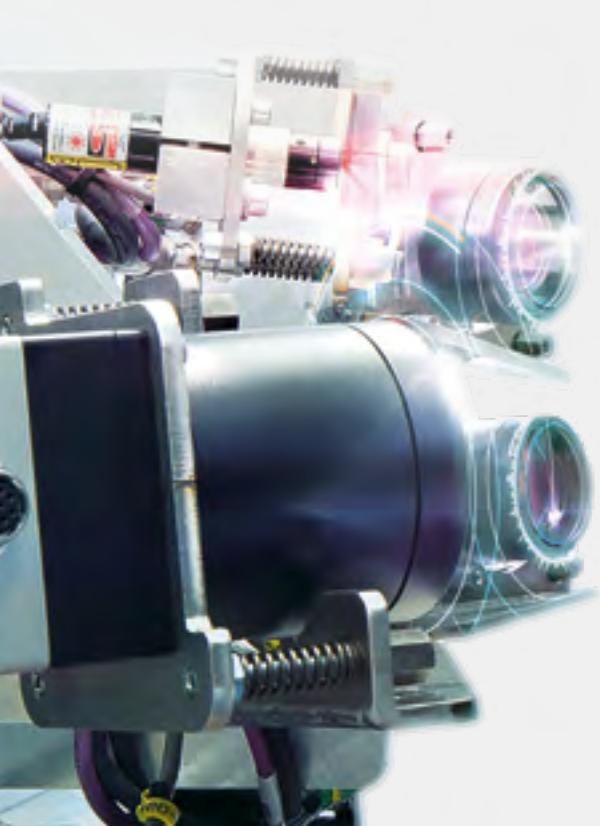
## TECHNOLOGIES & TOTAL SOLUTIONS

The four TKH core technologies are combined with each other to produce innovative, total systems, to be able to satisfy customer demand and to boost our opportunities in the market.



# COMPETITIVE LANDSCAPE

Developments in the industry and the competitive landscape are important for our positioning in the market. There are changes in customer patterns, acceleration in technological developments, an increase in the demand for sustainable solutions and consolidation of (industrial) sectors. Geographical spread, high-quality proprietary technologies and the distinctive technological level are determining factors for our competitive capacity.



- TKH has a geographic spread of its market area, where growth is primarily focused on Europe, North America and Asia. This allows us to make targeted choices for investments and we can process specific niche markets more actively.
- The strength within TKH is the combination of the four core technologies into unique total solutions. Due to our distinctive character of in-house developed technologies – among other things protected on the basis of patents - the spectrum of competitors is fragmented and focused on partial solutions. The entry threshold to the market is high because of our distinctive technological level.
- Our strategic transformation program has reduced the number of operating companies via integration of operating companies, leading to economies of scale. This makes communication lines even shorter and the organization more flexible. We can switch faster, even when geopolitical and social developments occur, that lead to a reluctance to invest or a shift in focus on market areas.
- For a part of the product portfolio within connectivity, there is more competition. The distinguishing capacity here lies in the marketing of new technology -such as those for subsea cable systems and CEDD / AGL-, the high quality of the technology such as for specialty cables, or through the combination of connectivity with other TKH core technologies.

# 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 road-maps, we focus on the development within 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.

## INPUT



### 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.



### 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.



### 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.



### 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.



### HUMAN Employees

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.



### SOCIAL AND RELATIONS Networks and partnerships

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

### INNOVATIVE

Constant attention to innovation produces a range of products and services that guarantee technologically advanced solutions.

### VALUE CREATION

We use opportunities for growth in a targeted manner and limit (financial) risks.

### TALENT EMPOWERMENT

Our people represent our most important capital and are the driving force behind our success.

### BEING RESPONSIBLE

We would like to make a contribution towards a sustainable society and to take our responsibility in this respect.

### CORE VALUES AS A GUIDELINE FOR OUR ACTIONS

- Entrepreneurship
- Integrity
- Openness and transparency
- Risk awareness and accountability
- Sustainability

### BUSINESS OPERATIONS

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

### CORE TECHNOLOGIES

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

### SOLUTIONS

- Telecom Solutions
- Building Solutions
- Industrial Solutions

### VERTICAL GROWTH MARKETS

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

## OUTPUT

**INTELLECTUAL** A top quality organization and corresponding product portfolio may be achieved through:

- Constant devotion of attention to new technologies and innovations.
- Protection of technologies and IP rights via patents.
- Sound R&D roadmap.

**PRODUCED** An efficient, sustainable manufacturing environment may be achieved through:

- Application of the LEAN and Six Sigma principles.
- Production operating companies need to be ISO 14001 certified.
- Constant devotion of attention to the reduction of energy consumption, waste and recycling.

**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.
- Implementation of energy efficiency programs.

**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.
- Achievement of a stipulated bank covenant ratio.

**HUMAN** Evidence of the improvement of human capital may be found in the following:

- 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.

**SOCIAL AND RELATIONS** Evidence of an involved, socially conscious business may be found in the following:

- High customer and employee satisfaction.
- Community investments.

## OUTCOME

### INNOVATIVE

- Turnover: € 1.5 billion.
- Innovations: 20.5%.
- R&D expenditure: € 63.2 million.
- Subsidies and tax incentives for R&D: € 7.0 million.



### VALUE CREATION

- ROS: 11.6%.
- ROCE: 17.4%.
- Net earnings per share: € 2.72.
- Debt-leverage ratio: 1.5.
- Dividend pay-out ratio: 55.2%.



### TALENT EMPOWERMENT

- Number of training hours / FTE: 24.
- Employee satisfaction: 7.3.
- LTIF: 0.7.
- Illness rate: 3.26%.



### BEING RESPONSIBLE

- Co<sub>2</sub> emissions: -5.4%.
- Waste: 7.2%.
- Recycling: 85.5%.
- Customer satisfaction: 7.9.
- Breaches code of conduct: 0.
- Community investment (in % net profit): 0.5%.





# DEVELOPMENTS & RESULTS

29 FINANCIAL & NON-FINANCIAL RESULTS

30 INNOVATIVE & VALUE CREATION

30 GENERAL DEVELOPMENTS

33 FINANCIAL DEVELOPMENTS

35 DEVELOPMENTS PER BUSINESS SEGMENT

39 ACQUISITIONS, INVESTMENTS AND  
DIVESTMENTS

41 DIVIDEND PROPOSAL

42 TALENT EMPOWERMENT

50 BEING RESPONSIBLE

59 OUTLOOK



# FINANCIAL & NON-FINANCIAL RESULTS

in € millions (unless otherwise stated)

	2019	2018	Materiality matrix
<b>INNOVATIVE <sup>1</sup></b>			
Turnover	1,489.6	1,457.8	
Turnover from innovations	20.5%	20.8%	<b>1</b>
R&D expenditure	63.2	60.8	<b>1, 4</b>
Subsidies and tax savings through R&D	7.0	7.4	<b>8</b>
<b>VALUE CREATION <sup>1</sup></b>			
EBITA <sup>2</sup>	172.5	175.0	
Net profit before amortization and one-off income and expenses attributable to shareholders <sup>3</sup>	105.3	114.2	
Market capitalization <sup>4</sup>	2,136.8	1,742.8	<b>7</b>
EBITA/turnover (ROS)	11.6%	12.0%	<b>5</b>
EBITA/average capital employed (ROCE)	17.4%	21.3%	<b>5</b>
Net debt/EBITDA ratio	1.5	1.5	<b>5</b>
Dividend yield on closing price	3.0%	3.4%	<b>6</b>
<b>TALENT EMPOWERMENT <sup>5</sup></b>			
Number of employees (FTE)	5,980	6,533	
Number of training hours per FTE	24	25	<b>11</b>
Employee satisfaction	7.3	7.2	<b>9</b>
Lost Time Injury Frequency (LTIF)	0.7	n.a.	<b>10</b>
Illness rate	3.26%	3.47%	<b>10</b>
Number of employees with restricted opportunities on the labour market	120	94	<b>12, 13</b>
<b>BEING RESPONSIBLE <sup>5</sup></b>			
Carbon footprint (CO <sub>2</sub> emissions in mln kg)	45.2	46.0	<b>16</b>
Fleet: CO <sub>2</sub> norm, expressed in gr/km	91.1	91.8	<b>16</b>
Waste	7.2%	8.7%	<b>17</b>
Recycling % (most relevant raw materials)	85.5%	79.7%	<b>17</b>
Customer satisfaction	7.9	7.9	<b>18</b>
Breaches code of conduct	0	0	<b>14</b>
Signed code of supply	89.9%	81.9%	<b>14</b>
Community investments (% of net profit before one-off income and expenses)	0.5%	0.4%	<b>20</b>

1 The financial figures for 2018 and 2019 in this overview are presented on the basis of 'continued activities'. These are the figures excluding the divested industrial connectivity activities ('discontinued operations').

2 Before one-off income and expenses.

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

4 Including the shares repurchased by TKH.

5 KPIs and objectives are listed under chapter 'Sustainability statements and Reporting system'.

# INNOVATIVE & VALUE CREATION

The past year was a turbulent one, due to geopolitical and social developments, which resulted in a reluctance to invest in a number of market segments. We booked good progress in our strategic transformation program 'Simplify & Accelerate'. We are now better positioned to take advantage of economies of scale and synergies. We are also well on track to achieve our return targets and to take our value creation to a higher level. TKH realized a ROS of 12.9% in the second half of the year, despite the headwinds we faced in a number of end markets, which means it is moving firmly in the direction of our ROS target of at least 15%, a target we raised mid-2019. Macroeconomic uncertainties have increased in recent months. So far, the impact of the coronavirus seems limited for TKH. This also applies to the nitrogen and PFAS crisis in the Netherlands and possible international trade barriers. It remains difficult to predict possible future consequences. The order book of the entire TKH Group provides a strong basis for further value creation, as a result of which TKH is well positioned for the medium-term.

## GENERAL DEVELOPMENTS

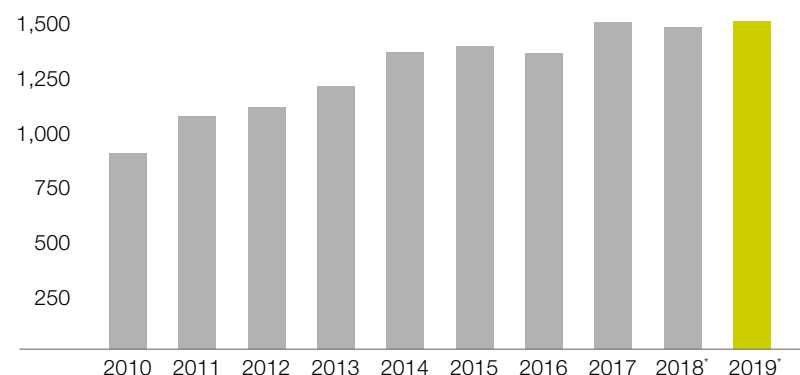
In the year under review, we took an important step with the introduction of our 'Simplify & Accelerate' program.

TKH sees the execution of the program as a high priority and it has broad support across the organization. The divestment of activities with limited organic growth potential is on track.

We have already realized € 250 million of the intended € 300 to € 350 million turnover in divestments. In addition, TKH has reduced the number of operating companies through integration with a focus on economies of scale. This has resulted in a simplified organizational structure with fewer companies and a focus on activities with higher value creation potential.

### TURNOVER DEVELOPMENT

in million €

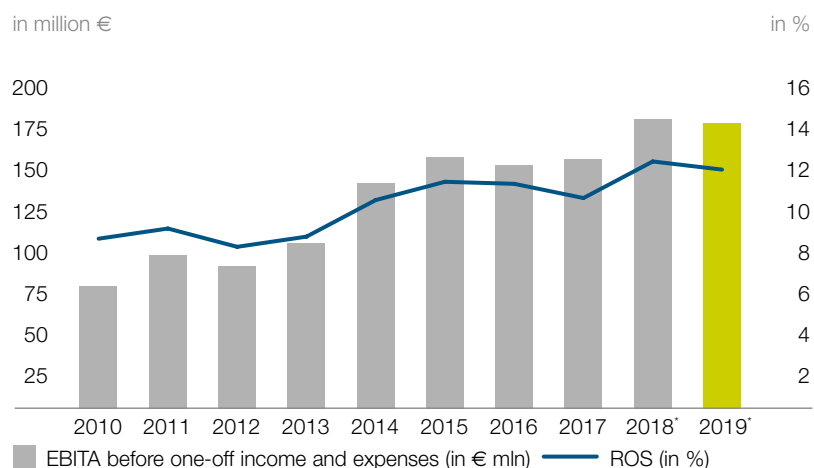


\* Excluding the divested industrial connectivity activities.

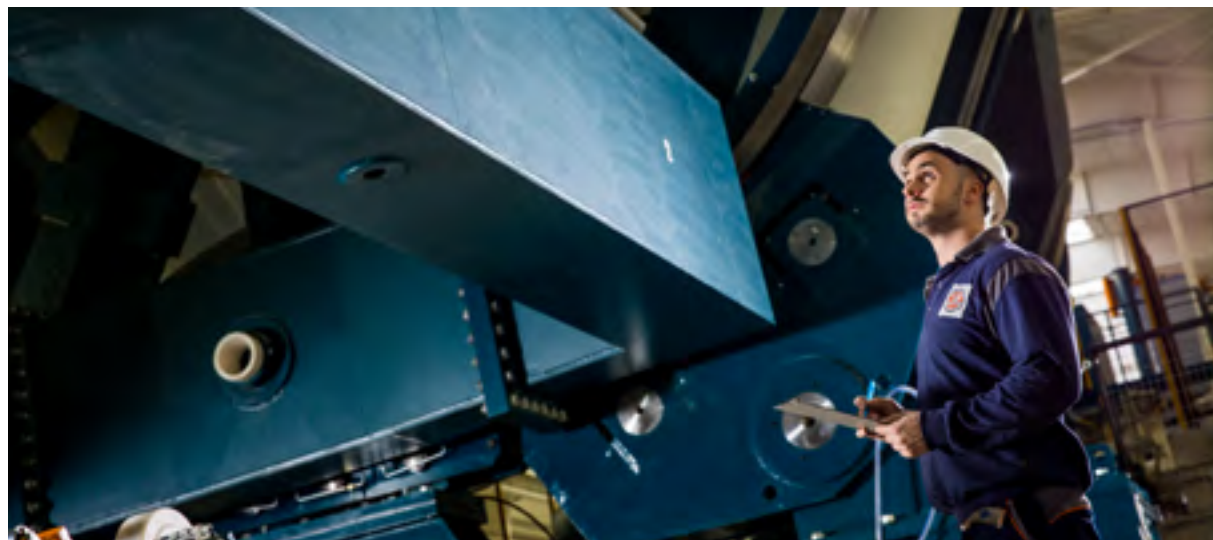
The execution of the program resulted in one-off expenses of € 18.3 million in 2019 and an impairment of € 5.0 million. These expenses are related in particular to:

- The proposed decision to relocate the cable production in Ittervoort to Haaksbergen and the discontinuation of the poorly performing activities in the industrial connectivity portfolio.
- Integration of security activities and portfolio under the brand name TKH Security, the merger of the activities in Singapore, and the integration of our Parking activities and portfolio.
- Phasing out of the Dutch system integration activities.
- Integration of 2D vision activities and portfolio and increased commercial cooperation between 2D and 3D Vision.
- Implementation of cost-saving measures in the French and German Building connectivity activities.
- Integration of the TKH Airport Solutions organizations in the Netherlands, Germany and Denmark.
- Integration of Ognios (mission critical communication) in the Commend organization.
- Costs of the divestment of the Chinese operating company ZTC, manufacturer of copper data communications cables.
- Costs for the acquisitions of Commend AG, ParkEyes, SVS-Vistek and FocalSpec.

## EBITA AND ROS DEVELOPMENT



\* Excluding the divested industrial connectivity activities.



SUBSEA CABLE FACTORY LOCHEM (THE NETHERLANDS)

The integration projects and improved returns will have an estimated positive impact of € 7 to € 8 million annually on the results from 2021 onwards. We expect to realize around € 5 million of this in 2020.

We also made good progress with our innovations in terms of both technology and market penetration. These now account for 20.5% of turnover. Key new developments include innovations in machine vision for 5G smartphone manufacturing systems, UNIXX tire building technology, subsea cable systems and CEDD/AGL connectivity technology. The new product launches and the contracts we acquired provide a strong basis for growth and continued value creation.

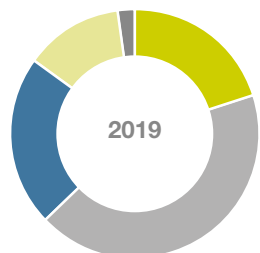
R&D expenses increased by € 2.4 million to € 63.2 million. As a technology company, it is necessary to remain up-to-date regarding the technological lead. The ambition for the growth to be realized, requires a highly innovative character and associated R&D costs and investments. It is important that 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 turnover, consisting of innovations introduced in the market in the past two years, was again at a high level of

## R&D EXPENSES

€ 63.2

MILLION





## GEOGRAPHICAL DISTRIBUTION OF TURNOVER

in %

	2019	2018
Netherlands	20	20
Europe (other)	43	41
Asia	22	23
North America	13	13
Other	2	3

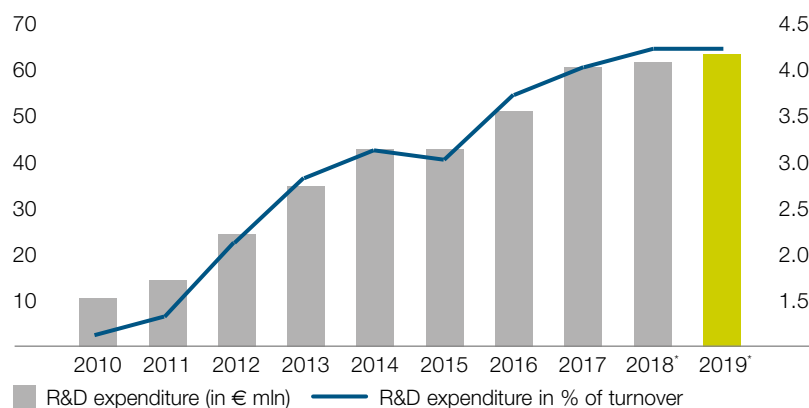
20.5%, confirms the effectiveness of our R&D efforts. A follow-up was given to the program to further focus on the portfolio of activities, for the sake of shareholder value creation and to create an optimal return on the activities in the most suitable environment. Where limited value creation is possible in the TKH environment, this should lead to a divestment of activities in the coming years.

The geographical distribution of turnover remained reasonably in line with the previous year, despite intensifying the disinvestment activities. The share of turnover in the Netherlands remains the same at a level of 20%. The share of turnover in Europe excluding the Netherlands increased to 43% and the share of turnover in Asia decreased slightly to 22%. The share in North America remains with 13% the same. Turnover in the other geographical regions was 2%.

## R&amp;D EXPENDITURE

in million €

in %



\* Excluding the divested industrial connectivity activities.

TURNOVER VERTICAL GROWTH  
MARKETS 2019

in million €

## FIBRE OPTIC NETWORKS

TURNOVER	137
BANDWIDTH GROWTH SCENARIOS	175-200

## CARE

TURNOVER	58
BANDWIDTH GROWTH SCENARIOS	70-100

## TUNNEL &amp; INFRA

TURNOVER	133
BANDWIDTH GROWTH SCENARIOS	150-200

## PARKING

TURNOVER	59
BANDWIDTH GROWTH SCENARIOS	150-200

## MARINE &amp; OFFSHORE

TURNOVER	54
BANDWIDTH GROWTH SCENARIOS	150-200

## MACHINE VISION

TURNOVER	143
BANDWIDTH GROWTH SCENARIOS	250-300

## TIRE BUILDING INDUSTRY

TURNOVER	330
BANDWIDTH GROWTH SCENARIOS	450-550



# FINANCIAL DEVELOPMENTS

Turnover increased by € 31.9 million (2.2%) to € 1,489.6 million in 2019 (2018: € 1,457.8 million). TKH recorded an organic decline in turnover of 1.9%. Acquisitions made a 3.9% contribution to turnover. Lower raw materials prices had a negative impact of 0.2% on turnover, while currency exchange rates had a positive impact of 0.4%.

At Telecom Solutions, organic turnover growth was 3.1% in 2019, while Building and Industrial Solutions saw declines of 2.7% and 2.8% respectively.

The gross margin rose to 48.2% in 2019, from 47.3% in 2018. This increase was partly due to a changed product mix, the normalization of start-up costs for new technologies and lower purchasing prices.

Operating expenses before one-off expenses increased by 6.0% compared with 2018, mainly due to acquisitions (+5.2%) and currency exchange effects (+0.6%). R&D expenses, 55.5% of which were capitalized as development expenses (2018: 49.6%), increased to € 63.2 million in 2019 (2018: € 60.8 million), due to the acquisition of technology companies. Operating expenses as a percentage of turnover increased to 36.6% in 2019, from 35.3% in 2018. This increase was mainly due to the expansion of production capacity in 2018 and lower production levels in 2019 for subsea and industrial cable systems. In the course of the year, we maintained capacity at a higher level than required in the short-term, in view of the medium-term growth perspective. Depreciations amounted to € 45.3 million in 2019, up € 19.2 million when compared with 2018. This was due to the depreciation expense resulting from the capitalization of right-of-use assets as a result of the implementation of IFRS 16 Leases as of 1 January 2019 (+ € 16.1 million), as well as a higher investment level than in previous years.

The operating result before amortization of intangible assets and one-off income and expenses (EBITA) amounted to € 172.5 million in 2019, down 1.5% from the € 175.0 million recorded the previous year. EBITA at Telecom and Building Solutions was up 9.5% and 8.5% respectively, while EBITA at Industrial Solutions declined by 11.8%. ROS dropped to 11.6% (2018: 12.0%).

The 'Simplify & Accelerate' program and the acquisition costs together resulted in one-off expenses of € 18.3 million (2018: € 4.2 million) for the full year 2019 and an impairment of € 5.0 million (2018: € 1.5 million).

Amortization costs were € 10.0 million higher at € 50.1 million, primarily due to acquisitions (+ € 6.8 million) and high R&D investments in recent years.



FOCALSPEC HIGH SPEED 3D LINE CONFOCAL SENSORS

Financial expenses increased by € 3.8 million to € 10.1 million in 2019, due to the application of IFRS 16 and a higher average outstanding bank debt. Currency effects also had a negative impact of € 0.9 million (2018: negative impact of € 0.2 million). The result from other associates was € 1.5 million lower due to lower volumes and prices of preforms at associate and preform producer Shin-Etsu in China, while one-off expenses are still having a downward impact on the contribution from the new minority interest in Cable Connectivity Group.

The effective tax rate was 23.1% in 2019 (2018: 21.8%). Fiscal R&D facilities, such as the Dutch innovation box facility, had a downward impact on the overall tax rate. Non-deductible impairments increased the effective tax rate by 0.5% in 2019.

Net profit from continued activities before amortization and one-off income and expenses attributable to shareholders declined by 7.8% to € 105.3 million in 2019 (2018: € 114.2 million). The divestment of the majority of TKH's industrial connectivity activities, recognized as 'discontinued activities', resulted in a gain of € 45.2 million (2018: € 10.8 million), including a net book profit of € 38.9 million.

Net profit for the full year 2019 amounted to € 113.9 million (2018: € 108.7 million). Earnings per share before amortization and one-off income and expenses amounted to € 2.51 (2018: € 2.72). The ordinary earnings per share amounted to € 2.72 (2018: € 2.58).

The cash flow from ordinary operations was € 182.2 million in 2019 (2018: € 126.7 million). In 2018, a significant increase in working capital had a negative impact on cash flow, while 2019 saw only a minor change in working capital. At year-end 2019, working capital as a percentage of turnover declined to 13.0% (2018: 13.9%), and remained within the bandwidth set of 12%-15%. Net investments in tangible fixed assets were lower than in previous years at € 30.6 million in 2019 (2018: € 40.0 million). A major part of this was related to investments in production facilities. Investments in intangible fixed assets for R&D, patents, licenses and software increased to € 40.4 million, largely due to the acquisition of the technology companies (2018: € 35.2 million). Total spending on acquisitions was € 65.5 million in 2019 (2018: € 116.2 million). The divestment of the majority of TKH's industrial connectivity activities

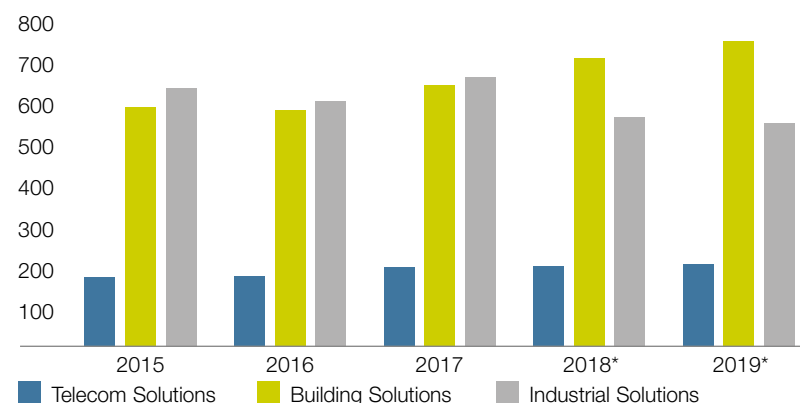
generated proceeds of € 83.5 million. On the other hand, TKH acquired a 41.5% minority interest in Cable Connectivity Group for € 16.4 million.

Solvency improved slightly to 43.7% in 2019 (2018: 42.4%). TKH's net bank debt, calculated in accordance with the financial covenants, had declined to € 300.6 million at year-end 2019, down € 26.1 million compared to year-end 2018. The net debt/EBITDA ratio stood at 1.5, which means TKH was operating well within the financial ratio agreed with its banks.

TKH had 5,980 employees (FTEs) at year-end 2019 (2018: 6,533 FTEs). Divestments reduced the total number of employees by 606 FTEs. Acquisitions accounted for an increase of 161 FTEs. The company also had 310 (FTEs) temporary employees (2018: 482 FTEs).

## TURNOVER PER BUSINESS SEGMENT

in million €



\* Excluding the divested industrial connectivity activities.

# DEVELOPMENT PER BUSINESS SEGMENT

## TELECOM SOLUTIONS

Turnover in the Telecom Solutions segment was 3.0% higher at € 200.5 million. Organic turnover growth was 3.1%, while currency exchange rates had a negative impact of 0.1% on turnover. Growth was realized primarily in the sub-segment fibre network systems.

EBITA was up € 2.7 million. The ROS improved to 15.4% from 14.5%.

### FIBRE NETWORK SYSTEMS

This sub-segment saw organic turnover growth of 4.7%. The slowdown in growth in China was offset by growth in turnover in optical fibre network systems in Europe. This growth was recorded mainly in France and Germany. We were able to compensate for pressure on prices in the Chinese market through the lower purchasing prices of raw materials for optical fibre and a higher contribution to turnover from the connectivity portfolio. This resulted in an improvement in gross margin. We completed the expansion of the optical fibre production capacity in the second half of 2019.

### KEY FIGURES TELECOM SOLUTIONS

in € millions (unless otherwise stated)	2019	2018	change
Turnover	200.5	194.5	+3.0%
EBITA	30.8	28.1	+9.5%
ROS	15.4%	14.5%	



### INDOOR TELECOM & COPPER NETWORKS

Turnover in this sub-segment saw organic growth of 0.1%. Growth stagnated in the second half of the year due to reduced demand for broadband connectivity and connectivity components.

#### FIBRE NETWORK SYSTEMS

# 8.8%

TURNOVER SHARE

#### INDOOR TELECOM & COPPER NETWORKS

# 4.7%

TURNOVER SHARE

## BUILDING SOLUTIONS

### VISION & SECURITY SYSTEMS

# 27.6%

TURNOVER SHARE



### CONNECTIVITY SYSTEMS

# 22.4%

TURNOVER SHARE

Turnover at Building Solutions was 5.9% higher at € 745.0 million. The segment saw an organic turnover decline of 2.7%. Acquisitions contributed 8.0% to the growth. Currency exchange rates had a positive impact of 0.8% on turnover, while lower raw materials prices had a negative impact of 0.3% on turnover.

EBITA before one-off expenses increased by 8.5% to € 75.5 million. EBITA improved significantly in the second half of 2019, when compared with the first half of the year, due to increased turnover and a higher gross margin. ROS improved slightly, to 10.1% in 2019, from 9.9% in 2018, and increased to 12.2% in the second half of the year.

### VISION & SECURITY SYSTEMS

Turnover in this sub-segment increased by 5.8%, but declined organically by 10.2%. In 2019, Machine Vision was affected by a reluctance to invest among consumer electronics manufacturers. This reluctance was also noticeable in other segments, although the fourth quarter saw a slight

increase in the sectors consumer electronics, industrial automation and inspection. The vision technology TKH has developed for new applications in the 5G network-related consumer electronics industry resulted in the first contracts and deliveries. We also noted strong interest in this industry for the FocalSpec sensors, a 3D technology TKH acquired in the fourth quarter. These technologies put TKH in a good position to respond to the expected strong increase in demand for these applications.

In Parking, TKH saw a decline in turnover from larger projects in the field of parking guidance systems. A key step was made with the acquisition of ParkEyes, which gives us access to smaller and mid-sized car parks. In late 2019, the ParkEyes portfolio also gained certification for the US market.

In Tunnel & Infra, growth was driven by the roll-out of our vision-based traffic management solutions in the US market.

In 2019, we combined the activities of the security-related companies in TKH Security, which we will also be marketing as a brand. We also decided to phase out the Dutch system integration activities. This meant organic turnover growth was limited.

### KEY FIGURES BUILDING SOLUTIONS

in € millions (unless otherwise stated)	2019	2018	change
Turnover	745.0	703.7	+5.9%
EBITA before one-off expenses <sup>1</sup>	75.5	69.6	+8.5%
ROS	10.1%	9.9%	

<sup>1</sup> The one-off expenses relate to the costs of € 17.2 million for restructuring, integrations, acquisitions and divestments (2018: € 3.5 million).



The 'Simplify & Accelerate' program resulted in one-off expenses and impairments for restructuring and integration operations and the phasing out of a number of activities. These expenses were primarily related to the machine vision, mission critical communication and security activities. We also incurred acquisition costs.

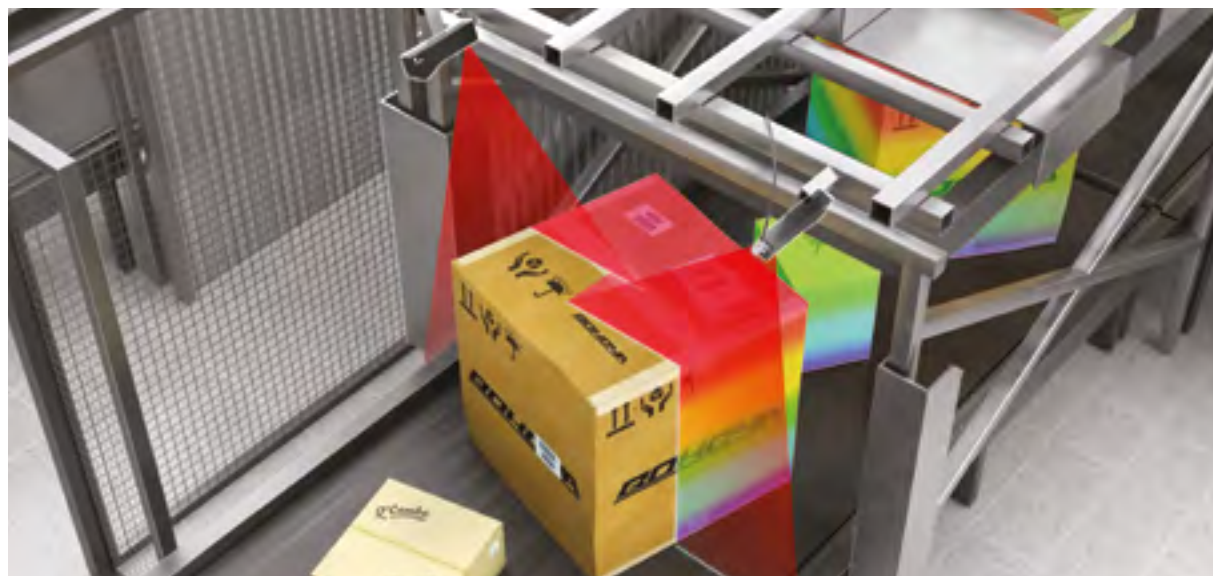
### CONNECTIVITY SYSTEMS

Turnover in this sub-segment increased organically by 6.6%. A considerable amount of this growth came from the vertical growth market Tunnel & Infra. We also saw healthy growth as a result of the increase in our market share in Airfield Ground Lighting (AGL). We are seeing a continued increase in the interest in our innovative CEDD technology for AGL, which integrates various TKH technologies and competencies. Turnover in energy cable systems also saw continued strong growth, driven by major investment requirements for energy networks.

In Marine & Offshore, we saw a decline in turnover due to lower turnover of subsea cable systems, due to the fact that we were unable to focus fully on acquiring new orders until the fourth quarter of 2018. As a result of this, no production was involved in the first half year. At the end of the fourth quarter of 2019, we started production for the delivery of the array connectivity systems for the 'Fryslân' wind park in the Netherlands. In addition, we closed a contract for a second wind farm and saw a further increase in our quotation portfolio, which underlines the substantial growth potential of these activities for the coming years.

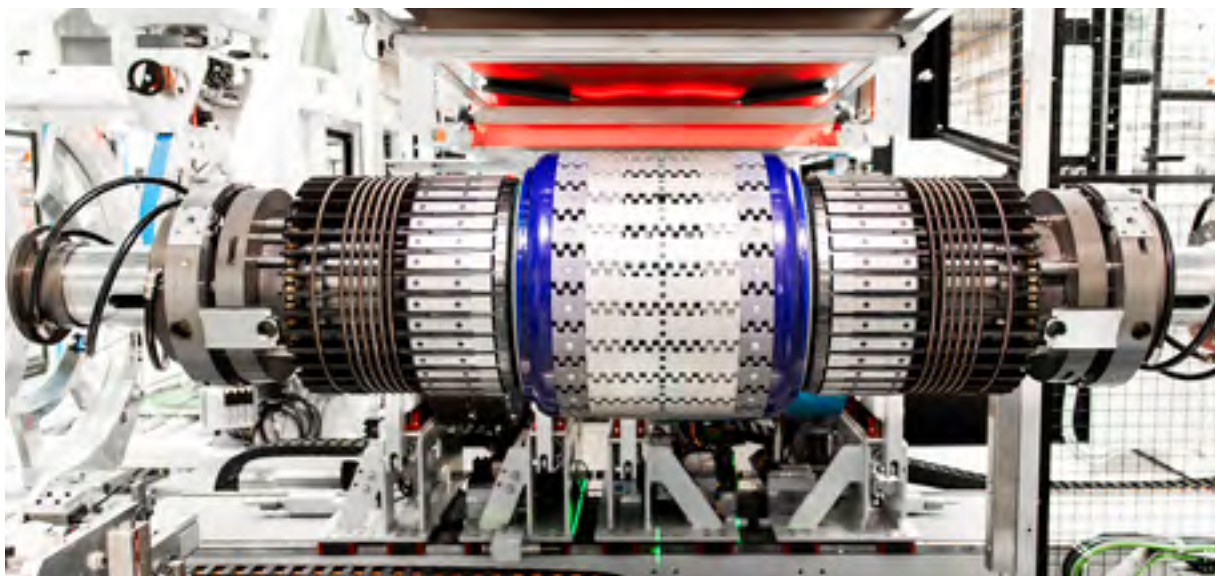
The costs of our CEDD/AGL and subsea activities are still exceeding the income from these activities.

Turnover in structured data cable systems was higher in 2019. However, the Dutch construction and infrastructure sector was confronted with the nitrogen and PFAS problem, which had a negative impact on turnover growth, especially in the fourth quarter.



In the fourth quarter of last year, we announced the proposed decision to end cable production in Ittervoort and transfer the core business to Haaksbergen. We are also implementing restructuring measures in Germany and France to increase cost efficiency. We recorded a reorganization provision and recognized an impairment on machinery in connection with these measures.

## INDUSTRIAL SOLUTIONS



### MANUFACTURING SYSTEMS

# 36.5%

### TURNOVER SHARE

Turnover in the Industrial Solutions segment declined by 2.7% to € 544.2 million. Currency exchange rates had a marginally positive impact of 0.1%, which was offset by on average lower raw materials prices. The segment saw an organic turnover decline of 2.8%.

EBITA declined by 11.8% as a result of lower turnover and production capacity utilization. The ROS declined in line with this to 15.0% (2018: 16.5%).

### MANUFACTURING SYSTEMS

TKH divested the majority of the industrial connectivity activities as of August 2019, since they were insufficiently aligned with our advanced technology strategy and continued focus on our vertical growth markets. The remaining industrial connectivity activities are limited in size and we have therefore integrated these in manufacturing systems. The demand for specialty cables and cable systems weakened in the automotive and robot industries in the fourth quarter.

Turnover in Tire Building was at a lower level in the fourth quarter, but for the year as a whole remained at the same level as the previous year. There was reluctance among the top-five tire manufacturers due to negative developments in the automotive industry. Nevertheless, the order book was higher at year-end 2019 than a year earlier, due to increased order intake from other customers. The development of the UNIXX integrated tire-building machine (new tire-building platform) is progressing well. The first UNIXX has been installed at a launching customer.

The renewed INDIVION, a high-quality automated medicine dosing and distribution system, was delivered to a launching customer in the fourth quarter and is now available for active sales.

### KEY FIGURES INDUSTRIAL SOLUTIONS

in € millions (unless otherwise stated)	2019	2018 <sup>1</sup>	change
Turnover	544.2	559.5	-2.7%
EBITA before one-off expenses <sup>2</sup>	81.4	92.3	-11.8%
ROS	15.0%	16.5%	

<sup>1</sup> The comparable figures for 2018 have been adjusted as a result of the discontinued industrial connectivity activities.

<sup>2</sup> The one-off expenses relate to restructuring costs of € 1.1 million (2018: € 0.3 million).

# ACQUISITIONS, INVESTMENTS AND DIVESTMENTS

Acquiring companies is anchored in TKH's strategy and contributes to the intended value creation by strengthening TKH's proposition both technologically or geographically. In the case of acquisitions we focus on structurally healthy companies with a value of turnover 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. The 'Simplify & Accelerate' program, introduced in June of the year under review, includes a divestment program with the aim of divesting € 300 to € 350 million, targeting activities with a lower profit potential. The proceeds of the divestment program will be invested in, among other things, the vertical growth markets, by means of a targeted buy-and-build strategy.

## ACQUISITIONS

In April 2019, TKH acquired all shares in Commend AG, with offices in the Zurich and Geneva (Switzerland) districts. Commend AG is the value added reseller in Switzerland of the Commend Group acquired by TKH in 2015. With this acquisition, TKH has expanded its geographical position in Switzerland, giving it a strong position for mission critical communication systems in the Swiss market. With 23 employees, Commend AG realizes an annual turnover of approximately € 8 million. The activities of Commend AG are part of the Building Solutions business segment.

In April 2019, all shares in ParkEyes, located in Malaga (Spain), were also acquired. ParkEyes' innovative technology makes use of video analytics, based on Artificial Intelligence, in order to provide automated end-to-end



MISSION CRITICAL COMMUNICATIONS - COMMEND AG

solutions for the parking industry. The technology also plays a role in serving smaller car parks. With 27 employees, ParkEyes achieves an annual turnover of approximately € 7 million. The activities form part of the Building Solutions business segment.

In September 2019, the acquisition of all shares in the vision technology company SVS-Vistek, based in Seefeld (Germany), was closed. SVS-Vistek supplies innovative high-end technologies in the field of imaging systems for inspection, measurement and process control for various end markets, including flat-panel display, semi-conductor, electronics, automotive and intelligent traffic systems. With 56 employees, SVS-Vistek realises an annual turnover of approximately € 20 million. The activities of SVS-Vistek are part of the Building Solutions business segment.





INNOVATIVE PARKING SOLUTIONS - PARKEYES

In October 2019, all shares in FocalSpec Oy, based in Oulu (Finland) were acquired. FocalSpec is an innovative company which designs and manufactures patented Line Confocal Imaging (LCI) technology. This LCI technology is used to measure the variation in surface heights and can scan both glass and opaque materials in both 2D and 3D with very high resolution and speed. With this acquisition, TKH has expanded its vision technology to include confocal technology with applications in markets such as consumer electronics, battery, pharmaceuticals, semi-conductors and the medical sector. With 55 employees, FocalSpec achieves an annual turnover of approximately € 6.5 million. The activities are part of the Building Solutions business segment.

### DIVESTMENTS

TKH reached agreement with the Dutch private equity firm Torqx Capital Partners in July 2019 on the establishment of a new enterprise – called the Cable Connectivity Group – which has acquired the shares of the companies responsible for a large part of TKH's industrial connectivity activities. The operating companies involved are located in the Netherlands, Germany, Italy and Poland and have a turnover of approximately € 184

million, an EBITA of € 15.4 million and 606 FTEs. TKH has acquired a minority interest of 41.5% in the new company.

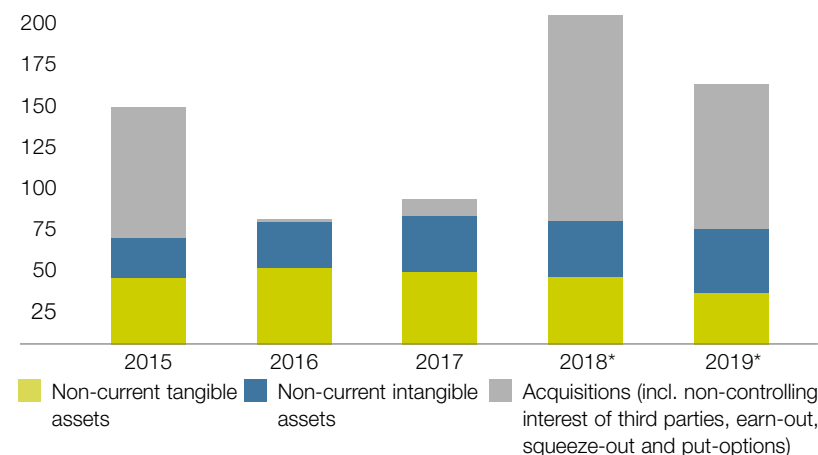
In November 2019, TKH announced that an agreement has been reached with Shanghai Electric Group Company Ltd. in Shanghai, China, on the acquisition of 95% of the shares of TKH operating company Zhangjiagang Twentsche Cable Co. Ltd. ('ZTC') in Zhangjiagang, China, and the remaining 5% by the key management of ZTC. ZTC specializes in the production of copper data communication cables and has a turnover of € 69.6 million, an EBITA of € 5.0 million and 198 FTEs. The divestment was completed in January 2020.

### INVESTMENTS IN TANGIBLE NON-CURRENT ASSETS

In 2019, the net investment in tangible non-current assets, excluding right-of-use assets, totalled € 31.8 million (2018: € 42.5 million). The investments were mainly realized in the segments building connectivity systems, vision & security systems, fibre network systems and manufacturing systems.

### INVESTMENTS

in million €



\* Excluding the divested industrial connectivity activities.



An important part of the investments related to the expansion of building and production capacity, including:

- Expansion of production capacity for 2D and 3D smart sensor technology.
- Upgrading of production capacity for subsea cable systems.
- Expansion and upgrading of optical fibre production capacity in China.
- Replacement and expansion of production capacity for industrial cable systems in Germany and China.

Depreciation on tangible non-current assets totalled € 29.5 million in 2019 (2018: € 28.1 million).

### INVESTMENTS IN INTANGIBLE NON-CURRENT ASSETS

In 2019 € 40.5 million was invested in intangible non-current assets (2018: € 35.2 million). The most important investments involved the (ongoing) development of our technologies for solutions for our vertical growth markets, as well as related patent fees. These include new generations of tire building systems, subsea portfolio and production technology, contactless energy and data distribution (CEDD), a new generation platform for communication systems, an integrated security platform, parking management and guidance technology and 2D and 3D vision portfolio.

Expenditure on our acquisitions amounted to € 65.5 million (2018: € 116.2 million). As a result of these acquisitions, intangible non-current assets increased by € 80.5 million because of purchase price allocations for the acquisition of brand names, customer databases, intellectual property and goodwill paid (2018: € 156.8 million).

## DIVIDEND PROPOSAL

At its General Meeting, TKH will propose a dividend of € 1.50 per (depository receipt of a share (2018: € 1.40). Based on the number of outstanding shares at year-end 2019, this amounts to a pay-out ratio of 59.8% of the net profit before amortization and one-off income and expenses attributable to shareholders and 55.2% 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 15 May 2020.

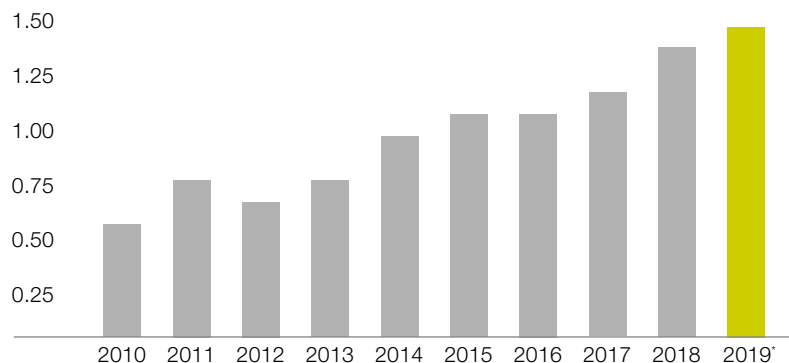
### DIVIDEND PROPOSAL



€ 1.50

### DIVIDEND

in € per (depository receipt of) share



\* Proposal.

# TALENT EMPOWERMENT

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 provide our employees with a healthy working environment where safety comes first, and we give them opportunities to develop.

## ORGANIZATIONAL STRUCTURE

TKH has a decentralized organizational structure in which responsibilities are assigned far down in the organization using a thorough control and monitoring system. In recent years, the organization has been strengthened through acquisitions of companies with a close connection to our four core technologies and their related vertical growth markets. In order to make better use of operational synergies and, at the same time, concentrate the available expertise more on activities with attractive margins and profit potential, the focus in the year under review was also on simplifying the organizational structure by integrating clusters of companies and putting them under a single management. This leads to uniformity of approach in such areas as R&D, sales and marketing, communication, purchasing, other sales support activities and to consistency in branding and customer approach.

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



## MANAGEMENT BOARD



### MANAGEMENT BOARD TKH GROUP

*On the picture from left to right:*

Erik Velderman MBA

Gertjan Sleeking

Alexander van der Lof MBA (Executive Board, *chairman and CEO*)

Harm Voortman MSc (Executive Board)

Renate Dieperink MBA

Elling de Lange MBA (Executive Board, *CFO*)

### 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

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 Director Finance & Control, Director Corporate Development and Company Secretary of TKH. The Executive Board is responsible for the decisions taken by the Management Board and bears ultimate responsibility as provided for in the company's articles of association.

In addition, TKH has a Strategic Sounding Board, consisting of managing directors of operating companies. This board assesses TKH's strategy and discusses its implementation. The members of the Strategic Sounding Board form a sounding board, for discussing technology, portfolio and market developments within the 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, thus promoting management development.

### CULTURE

TKH has a culture in which entrepreneurship is encouraged. This includes an active market approach combined with an in-depth analysis of opportunities and risks, and a cautious approach to and acceptance of risks. The Executive Board and management lead by example and set the right values and standards in the organization. An important principle underlying TKH's management structure and its operating companies 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. We aim to have an open business culture, in which employees are acknowledged and heard. In addition to a pleasant work culture, providing a safe and healthy working environment is of the greatest importance. One of our key objectives is to ensure that we are an attractive and reliable employer.

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 of the operating companies and other key positions. Conduct has an impact on the quality and results

## CENTRAL WORKS COUNCIL

The Central Works Council consists of the following members:

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

of the entire organization. A clear code of conduct, operational control and a zero-tolerance policy in relation to matters of principles as fraud, bribery and corruption, are important means of ensuring that work is carried out in accordance with the right principles and agreements. It creates clarity about what the TKH organization stands for. Because of our open culture, our people feel involved in the company and call each other to account for any undesirable or unacceptable behaviour in accordance with the standards and values that we aspire to. Collaboration and the conduct of the companies' management teams are also closely monitored. Surveys of employee and customer satisfaction allow us to assess where there is potential for improvement in the companies. Management is encouraged to maintain direct contact with the company's employees. Meetings between the Executive Board and the management of operating companies take place as frequently as possible at the offices of the operating company concerned. The Executive Board maintains contact with employees in all parts of the organization through employee presentations, attending project meetings or via guided tours.

## EMPLOYEE REPRESENTATION

The interests of the employees are promoted at operating company level by the local Works Councils, and at TKH group level by the Central Works Council. These councils ensure ongoing employee representation under the terms of the Works Councils Act. During the year under review, the Executive Board and the Central Works Council held good, close consultations with each other. The topics discussed were the results and organizational developments, the strategic transformation process, the budget, investments and the TKH annual report. Special topics dealt with during the year under review were the (re-)appointment to the Supervisory Board, the new pension scheme, acquisitions and divestments. The Central Works Council dealt with current topics pertaining to staff representation during study days. The Executive Board chair 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. The subjects discussed at this meeting were TKH's strategy and operational matters affecting TKH and its operating companies. TKH organizes an annual Works Council Day to strengthen ties between the various Works Councils and other staff representatives in the Dutch operating companies. This day is held on the premises of one



of the operating companies. The Executive Board holds a presentation on developments at TKH. In addition, current topics are discussed and the directors of the operating company organizing the event give a presentation about the company, followed by a tour. Time is also set aside for informal discussion so that knowledge and experience can be exchanged. This time the Works Council Day took place at TKH Airport Solutions. TKH believes that consultations with the Central Works Council 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.

## RISK MANAGEMENT

Organizational risks associated with entrepreneurship are easily identifiable through a clear framework of responsibilities and authorizations. The organization's open, transparent, yet sufficiently self-critical culture enables it to deal with responsibilities and authorizations correctly, and identify risks in good time. Amongst other things, an appropriate risk management model is used to identify potential risks, so as to ensure that they may be anticipated effectively. Risk management is firmly embedded



in our management model. There are short lines of communication with the Executive Board and it is backed up by close monitoring of agreed objectives using a comprehensive KPI dashboard. This provides clear insight into the implementation of agreements. The KPI dashboard is divided into weekly, monthly and quarterly information, and presents a clear overview of the relevant KPIs in the long-term. An effective reference framework such as budgetary and historic information helps us to quickly and effectively detect deviations from the agreements. Trends and deviations, in both a favourable and unfavourable sense, are discussed at length in order to understand developments and make adjustments where necessary. This method is encouraged from the top down to ensure that it permeates all levels of the company.

Every quarter, or on a monthly or weekly basis if required, the management teams of the operating companies discuss a strategic scorecard based on “highlights” and “lowlights” for each business segment, as well as any related short- and medium-term action points. In this way, insights are obtained into market, financial, commercial and sustainability developments so that they can be used to identify deviations and potential risks in time and take any measures that may be required. Reports provide both quantitative and qualitative information, and are structured along the lines determined by TKH. This encourages transparent reporting on both positive and negative issues.

## WORKFORCE, DIVERSITY 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.

At the end of 2019, the number of employees was 5,980 FTEs (2018: 6,533 FTEs). As a result of the divestments, the number of employees fell by 606 FTEs. Acquisitions resulted in an increase of 161 FTEs. Excluding these two aspects, there was a decrease in FTEs of 108. At the end of 2019, 310 (FTEs) temporary workers were employed (2018: 482 FTEs). The decline in temporary labour occurred mainly within manufacturing systems.

There is a balanced distribution in terms of age structure. There is good job occupancy at junior, middle and senior levels. The current age structure also leads to manageable staff outflow due to retirement. 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 profit from a variety of competences, which, among other things, enhances the objectivity and dynamism of our business operations. However, competences and experience remain the main criteria for selecting the right candidate.

At the end of 2019, 24% of the workforce consisted of women. The nature of our work is largely technical. Together with the supply on the labour market, this is the main reason for the present distribution of male and female employees. However, we do see women increasingly choosing technical professions so that we can more specifically select and recruit women for technical positions within our organization.

In order to bring diversity to people's attention in the organization, specific programs have been set up with different approaches to better embed this in the organization. There are programs for middle and senior

## NUMBER OF EMPLOYEES

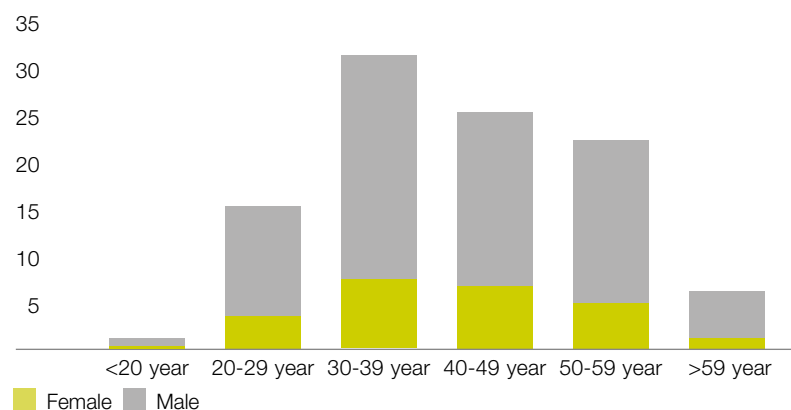
# 5,980

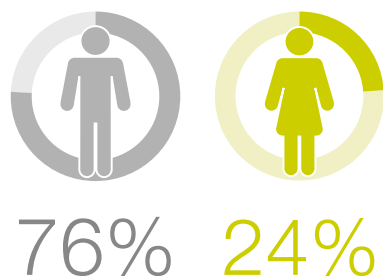
FTE



## EMPLOYEES BY AGE

in %





## GENDER DIVERSITY GEOGRAPHICAL DISTRIBUTION

in %

	male	female
Netherlands	30	5
Europe (other)	29	12
Asia	11	5
North America	5	2
Other	1	0

management to bring gender diversity more into balance in terms of jobs and consultation structures. This group plays a key role in the strategic development of the TKH Group and acts as a sounding board for top management at the operating companies and the Executive Board. Moreover, this group is relevant in the context of succession planning. Operating companies are themselves responsible for improving the gender mix within their organizations, but progress is closely monitored by the Executive Board. The subject is frequently on the agenda in discussions between the Executive Board and the operating companies so that it is steered by the highest management body.

Part of the diversity policy is inclusiveness. In our appointments policy, we are committed to providing a suitable working environment for people with a disadvantage on the labour market. We fit out workstations and remove limitations wherever possible. Through 'job carving', tasks relating to one or more jobs are merged into a new job. This group of employees is supervised by an external job coach while the day-to-day management is performed by a manager in our organization. We create work experience opportunities for the long-term unemployed or people returning to the labour market. In addition, people from sheltered employment are deployed at operating companies to perform repetitive work. At the end of 2019, 120 people with a disadvantage on the labour market were employed (2018: 94).

We do not differentiate between men's and women's basic salaries and apply market-based remuneration. In addition to a fixed basic salary, the remuneration structure may include incentives such as a profit-sharing scheme, performance-dependent bonuses, a share option scheme, or share-based remuneration for senior management. There may be

differences between countries depending on local market practice and the tax and social security structure. We have a remuneration policy based on the requirements of the job, and the experience and 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. 80% of Dutch employees are covered by a collective labour agreement. Agreement-related rules are observed in those operating companies where there is no collective labour agreement. We apply a similar policy for foreign operating companies, in line with local laws and regulations. TKH ensures that such schemes are correctly drafted and observed, particularly as regards periods of notice, restraint-of-trade clauses and profit-sharing arrangements, and that the statutory notice periods and other provisions are complied with. In the case of acquisition opportunities, the salary structure of the company to be acquired is one of the subjects examined during the due diligence process.

## TALENT DEVELOPMENT

Talent and management development are of great strategic value. Employee skills and backgrounds are matched as closely as possible to the strategic developments at TKH and where necessary we provide education and training to either help employees to grow in their jobs or to guide them to the next career step. At the same time, we are alert to the need to retain critical skills in order to secure our strategic agenda in relation to technological developments and innovations. Our employees are encouraged to develop in the direction they aspire to. Education and training are an indispensable part of maintaining our knowledge level. We make training budgets available to further develop our employees' skills and to broaden their employability. We organize in-company training, with the help of external professionals, so that this matches normal practice at TKH as closely as possible. New employees follow introductory programs including product training. On average, our employees spent 24 hours on education and training (2018: 25 hours).

We encourage a major part of learning ability to be developed through the work itself and through exchange of knowledge between our operating companies. In the past year, we held workshops and knowledge meetings on financial themes and on current topics such as cyber risks and technological developments. In addition, internal education programs are

offered at operating company level to expand the technical expertise of employees, among other things. Through a mentoring program, we match experienced employees and junior employees in order to share professional knowledge while also 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.

The TKH strategy, technological and business developments in the vertical growth markets, as well as developments in Artificial Intelligence, cyber risks and sustainability, were discussed at the annual international management conference for board members and strategic management. We think it is important that our operating companies can learn from each other and we select individual companies or clusters to serve as a benchmark for the entire group. Every year, the best performing TKH company receives an award. In the year under review, this TKH award was given to the VMI Group. Among the reasons for granting the award were the group's innovative capacity, its good financial performance and the further strengthening of its market position in both the tire building and pharmaceutical industries.

We organize a Management Development (MD) program in partnership with Nyenrode Business University in Breukelen (The Netherlands). Candidates are put forward by the management of our operating companies on the basis of predetermined selection criteria. The MD program provides insight into the competencies of the participants, who can potentially qualify for promotion to a managerial or key position in our organization. The Executive Board maintains close contact with the candidates in the management development program and takes part in various joint sessions. Over the years, this has created a pool of potentials with which we have been able to fill key positions within our group.

To recruit 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 those on vocational training - in order to give them an opportunity to improve their skills



#### WOMEN IN TECHNICS

and qualities in practice and interest them in a possible job in our organization.

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

#### EMPLOYEE SATISFACTION

In order to measure our status as a good employer, we carry out employee satisfaction surveys about every three years. The surveys provide important information regarding the motivation, satisfaction and expectations of our

#### AVERAGE HOURS ON EDUCATION

24

PER FTE



## EMPLOYEE SATISFACTION

7.3 

MANAGEMENT DEVELOPMENT PROGRAM 2019

employees. Follow-up surveys also measure the effects of improvement actions. We carry out these surveys in collaboration with a specialized research agency.

Total average employee satisfaction at TKH is 7.3, slightly above last year's score (7.2) and above the benchmark (7.1). The Net Promoter Score (NPS) shows the extent to which employees are ambassadors for their own employer. It charts our internal reputation, with a high employer's reputation indicating many intrinsically motivated employees. The NPS at TKH is 7.0 (positive), whereas the benchmark is -8.7 (negative).

From the surveys carried out during the year under review, the safety aspect again scored highly with 8.3, followed by co-operation (7.7). Item for improvement is communication, with a score of 6.7. At 77%, the response was good, putting it above the sector average of 70%. For us, this is a sign that our employees understand the importance of such surveys.

The employee's performance and (career) development are discussed at the annual performance interviews between manager and employee. We encourage openness and honesty in these interviews, with the aim of professionalizing the organization. The interviews are used to discuss career wishes and development potential.

**HEALTH AND SAFETY**

It is 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.

Despite the continuous attention to safety and the pursuit of continuous improvement in safety performance, it is extremely regrettable that a fatal accident at one of our operating companies took place in 2019. This tragic incident shows that we must continue to work on safety awareness and safety performance. Increased attention to safety is reflected in the tightening of safety standards, in creating even better safety awareness through the evaluation of accidents and near-accidents, and by making this a permanent topic in the various consultative structures in all parts of the organization. It is our duty to focus on how we can further improve safety within organizations to ensure a safe workplace for everyone. In order to make safety demonstrable, even more emphasis is being placed on specific, measurable performance targets for safety measures, including the LTIF (Lost Time Injury Frequency) and illness. The LTIF for 2019 was 0.7.



The illness rate was 3.26%, slightly above last year's level (2018: 3.11%) but below the target of a maximum of 4.0%. Illness management is primarily the responsibility of the line manager of the sick employee. During the period of illness, 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 illness. We also optimize working conditions by using workplace scans. We organize ergonomic training sessions for employees whose work involves physical strain and/or a potential risk of physical complaints.

To reduce illness, we have introduced measures such as the vitality program in which employees can participate on a voluntary basis. Our vitality program helps our employees to improve their vitality. We offer employees insight into their health through checks carried out by an independent institute. Programs have been initiated to stimulate exercise and sports. Training courses and workshops are offered so that employees are helped to improve or change their lifestyles for the benefit of their health.

## LTIF (LOST TIME INJURY FREQUENCY)

0.7



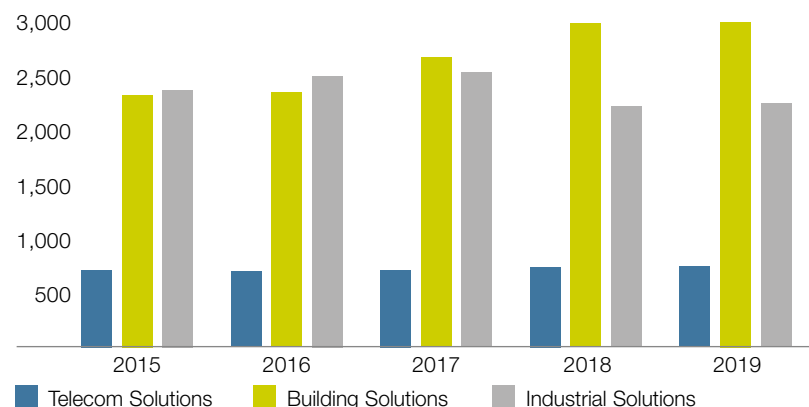
## ILLNESS RATE

3.26%



## NUMBER OF EMPLOYEES PER BUSINESS SEGMENT

in FTE



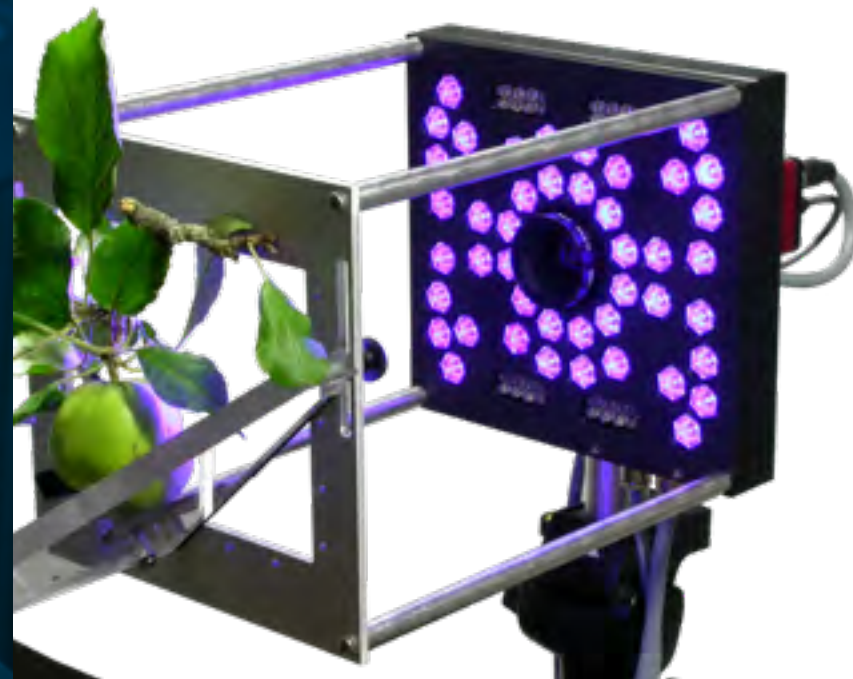
# BEING RESPONSIBLE

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, and sustainability initiatives are increasingly being integrated into our organization. Our policy for corporate social responsibility provides a framework for our short- and medium-term plans without losing sight of company interests. Sustainability 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 sustainability principles and starting points. Satisfying sustainability criteria plays an increasingly decisive role in our customers awarding contracts.

TKH conducts its activities in accordance with principles of honesty, integrity and transparency. 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 operating companies act according to ISO standards that are of relevance to sustainability. Our operating company TKH has been certified for the CSR performance ladder for many years. CSR performance ladder certification allows us to demonstrate objectively that our CSR management system is in order. Our German operating companies are ISO 50001 certified. ISO 50001 provides insight into energy performance by measuring and monitoring energy consumption.

### CLIMATE CHANGE

The earth is warming and that affects the climate. For this reason, awareness of climate change is becoming even more important. Based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), attention was devoted to this subject in the year under review. The TCFD is initiated by the financial sector and the recommendations aim to increase the transparency of how businesses respond to the risks and opportunities of climate change. We have carried out an initial analysis of the possible risks and opportunities of climate change for TKH and will, among other things, discuss the results with stakeholders in order to ensure a balanced follow-up.

### ENERGY AND EMISSIONS

We are trying to reduce environmental impact as much as possible by continuously measuring and improving our environmental performance. In order to gain insight into environment-related aspects, all our production companies are certified for the ISO 14001 environmental management system.

At all our production companies, from the design stage, we choose raw materials and other materials that have little or no harmful impact on the environment. The energy consumption during the production processes is also analyzed and, where necessary and possible, efficiency measures are implemented in order to ultimately achieve energy reduction.

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 (liters). At 74% of the total kWh consumed, electricity



consumption is the largest in terms of absolute volume, owing to its use in the production process, lighting, ventilation, air-conditioning and extraction systems. Gas represents 25% of the total kWh consumption and is used for heating buildings and, to a smaller extent, for process heating. We have seen a further decline in the consumption of diesel and fuel oil in recent years. This still accounts for only 1% of total consumption and is particularly used in Asia for heating buildings.

In 2019, energy consumption (in kWh) compared to total turnover fell by 2.8%. CO<sub>2</sub> emissions decreased by 2.6%. Compared to the reference year 2015, energy consumption decreased by 5.6% and CO<sub>2</sub> emissions by 5.4%. We managed to achieve energy savings despite an increase in production volumes. In addition, there were investments in production facilities that lead to an increase of energy consumption but as yet make a limited contribution to returns. To a limited extent, TKH uses green certificates in order to make an accelerated contribution to energy and CO<sub>2</sub> reduction. In the year under review, the volume of sustainably generated electricity purchased remained unchanged in relation to the previous year. As a result, the energy reduction achieved in 2019 is directly related to efficiency effects in operations.

#### ENERGY CONSUMPTION IN KWH


**-5.6%**



COMPARED TO 2015

#### CO<sub>2</sub> EMISSION

**-5.4%**



COMPARED TO 2015





OPERATIONAL EXCELLENCE PROGRAM

### VEHICLE FLEET

“Greening” our vehicle fleet will also help to reduce CO<sub>2</sub> emissions. We have set ourselves the target of allowable average CO<sub>2</sub> emissions of 95 grams/km in 2020. The average CO<sub>2</sub> emissions of TKH’s existing Dutch leased fleet in 2019 were 91.1 grams/km (2018: 91.8 grams/km). The leased cars introduced in 2019 had average CO<sub>2</sub> emissions of 83.7 grams/km (2018: 89.4 grams/km). Our leased fleet consists of 24.1% hybrid and electric cars.

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

### REDUCTION OF RAW MATERIAL CONSUMPTION AND WASTE

Sustainable business practice also includes making sustainable use of resources. TKH’s Operational Excellence program enables us to continually focus on the efficient use of raw materials and on reducing waste. Efficient management of materials and raw materials is relevant because of the 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 structurally reduce the quantity of waste at source by increasing material productivity. We reduce waste by improving processes and making innovations.
- Qualitative: we minimize the damaging effect of the waste. This means making as much use of recycled materials (recyclate) as possible and optimizing waste treatment by greater co-operation throughout the value chain.

Total waste from the most relevant raw materials, compared to total material consumption, was 7.2% in the year under review, against 8.7% in 2018. In the year under review, the volume of waste was still influenced by learning-curve effects in subsea cable systems, although a lower waste percentage shows that reduction measures have been implemented effectively and there is control over the further reduction of waste flows. Leaving this learning-curve effects aside, we have generated 5.4% waste compared to total material consumption (2018: 5.3%). During the year under review, we gave a high priority to optimizing the production process and adjusting production equipment 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 of a maximum of 5% of the total materials consumed in the shortest possible time.

Of the total waste, 85.5% was recycled (2018: 79.9%), while our target is at least 50%. Our copper supplier reprocesses pure copper waste into fully usable copper, so the figure for copper was almost 100% waste



recycling. Plastics that have become unusable during the cable production process but are suitable for recycling, are offered to waste processing companies with a view to turning them into new raw materials. Cables and odd lengths of cable are sorted as much as possible, and we are looking into the possibility of completely recycling the cables. The same applies to the plastics used as insulation and sheathing material. The improvement in recycled waste is also due to investments in production equipment for the in-house recycling of cable waste. This allows cable waste to be fully recycled, which also means savings on the purchase of raw materials.

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

### SUSTAINABLE PRODUCT PORTFOLIO AND CUSTOMER SATISFACTION

TKH strives for a balanced product portfolio with innovative concepts tailored to the customer's wishes. In this respect, sustainability criteria are becoming increasingly relevant. We are also devoting attention to sustainable innovation based on our innovation objective. We have set ourselves the target that at least 15% of our turnover should derive from innovations introduced in the previous two years. The proportion of innovations in turnover figures was 20.5% (2018: 20.8%).

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 construction works - both for architecture and civil engineering - for the European market are CPR (Construction Products Regulation) - certified in accordance with NEN 8012. NEN 8012 refers to the behaviour 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.

TKH's technologies and solutions support the sustainability ambitions of its customers. Our subsea cable systems contribute to a sustainable energy supply for the future. The TKH tire building systems increase the efficiency of the production process, which - in addition to high-quality tires - results in energy and waste reduction at the customer's site. The CEDD/AGL solution provides energy savings due to the use of sustainable LED lighting as well as the use of low voltage with induction.

#### RECYCLED WASTE

85.5%



OF TOTAL WASTE

#### INNOVATIONS

20.5%

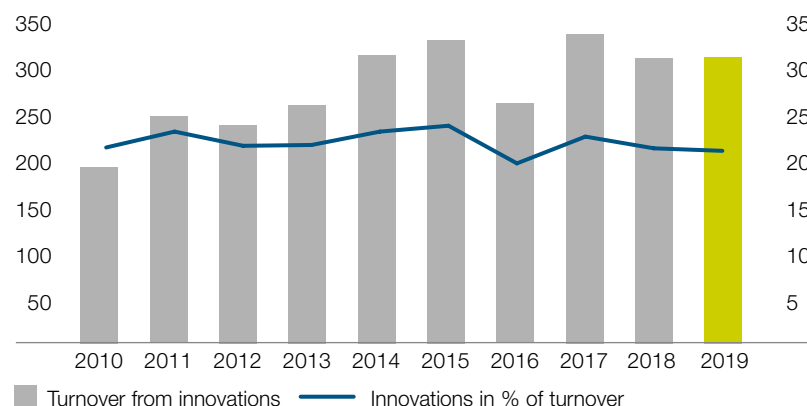


IN TURNOVER

#### TURNOVER FROM INNOVATIONS

in million €

in %



The parking guidance systems ensure efficient traffic flow in car parks, leading to a significant reduction in CO<sub>2</sub> emissions. TKH vision technology has become an indispensable application that optimizes manufacturing processes and automates and perfects quality control as well as inspections in production processes. This leads to significant efficiency improvements in the industry with positive results regarding sustainability criteria. We are continuing to tailor our portfolio to our customers' wishes with regard to efficiency and sustainability requirements, taking customer intimacy as our starting point.

In order to gain insight into customer loyalty and appreciation, we carry out customer satisfaction surveys (CSSs) about every three years. Based on the outcomes of these surveys, we can take specific action to serve our customers even better. The average score of the CSSs was 7.9 in 2019, which is the same score as in 2018 and slightly above the benchmark score of 7.8. Our technical support scores highest at 8.6, followed by account management at 8.3. Complaints resolution scored lowest with 6.8. The Net Promoter Score is 16 (positive) compared to the benchmark of 12 (positive). The response to the CSSs was 34%, which is a usual percentage.

## CUSTOMER SATISFACTION

7.9



Our service must be of the highest possible quality. Yet we cannot always avoid customer dissatisfaction. If we receive customer complaints, a high priority is given to prompt, efficient resolution. We have set a target of resolving at least 60% of all complaints within one working week. In 2019, 80% of all customer complaints were resolved within one working week (2018: 81%).

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 and smell reduction measures. We register and manage environmental complaints and inform those involved in good time about the corrective or preventive measures. Last year, five complaints about noise pollution were submitted. After taking adequate measures on our side, we were able to resolve these to the satisfaction of the complainants.

## HANDLING CUSTOMER COMPLAINTS

80%



RESOLVED WITHIN 1 WORKING WEEK



## INTEGRITY &amp; GENERAL ORGANIZATIONAL PRINCIPLES

TKH highly values the integrity of its employees' conduct. Clear guidelines, operational control and a zero-tolerance policy in relation to matters of principle, such as fraud, bribery and corruption, ensure that work is carried out in accordance with the appropriate principles and agreements. We have drawn up a code of conduct to ensure that every employee acts according to TKH's conduct guidelines. The code of conduct uses the OECD guidelines as a reference framework. Each employee confirms in writing that they will act in accordance with the code of conduct. Managers are required to set an example. The code of conduct is linked to a sanctions policy in cases of unacceptable behaviour. The managers of our operating companies are responsible for implementing the code of conduct within their organizations. The code of conduct has been signed by 93.6% of the total number of employees. The desired 100% was not achieved due to, among other things, a longer lead time than intended for new employees to sign the code, and the time needed to implement the code in acquired companies. We are maintaining close contact with the operating companies and establishing clear rules to eliminate such delays as quickly as possible. Internal Audit

ensures that the code of conduct is complied with in all parts of our organization. There is close co-operation with 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 at TKH. Such a report will not affect the position of the whistleblower if the report is made in accordance with the procedure established for that purpose. In the past year, no reports were received in accordance with the whistleblower scheme. It is difficult to draw clear conclusions about the level of awareness of acting with integrity, and the possibility of reporting abuses. We believe it is important to promote an open and transparent culture and measure such themes in the ESSs.

### IT SECURITY & PRIVACY

Due to increasing alertness to potential cyber risks, IT & Security has been high on the strategic agenda and a clear IT & Security policy has been designed at TKH. In addition, IT audits have been carried out at operating companies on the basis of which action plans have been drawn up to address vulnerabilities in IT systems. As a result of the IT audits, the themes of cyber security and cyber risks have been given high priority within the organization and awareness of potential risks has been raised. Communication on cybersecurity has been intensified by sending out regular newsletters for example. Penetration tests have also been carried out at some operating companies to determine whether the organization is sufficiently resilient to possible digital attacks. These tests have provided insights into potential vulnerabilities of the IT infrastructure and their possible consequences. The ultimate goal is to implement safe processes and effective controls, and to create a safe and honest culture. The subject is a recurring item on the agenda in meetings of the Executive Board as well as in Audit Committee meetings. This ensures permanent attention to this topic. IT & Security is part of the Internal Audit focus area.

European legislation on the protection of private information, the General Data Protection Regulation (GDPR), lays down strict rules on the use of personal data and the storage of such information. One of the conditions

is the establishment of a processing register that shows what personal data is used or stored, where, and for what purposes. The establishment of this register gives us insight into and control over data processing in the organization and the related privacy controls. A privacy regulation has also been drawn up and implemented in the organization. Internal Audit, in collaboration with the internal Legal Advisor (who is also the Data Privacy Officer) ensures the proper application of GDPR legislation within the organization.

### CODE OF SUPPLY

With regard to themes that are material to us, we also expect a zero-tolerance policy from our suppliers. Our principles are laid down in the code of supply and focus on human rights, the environment, health & safety of employees and ethical conduct. Every supplier with a purchase volume above € 1 million must sign the code of supply. The code of supply has been signed by 90% of the suppliers (2018: 82%). Although this is an improvement compared to last year, the code has not yet been signed by all suppliers. The reason for this is an increase in the number of suppliers in relation to a longer lead time than envisaged for the signing of the code.





Within a maximum of two years after a code of supply has been signed, there must be an assessment of the supplier in question to review the items stipulated in the code. In the year under review, 78% of assessments were carried out. The desired 100% was not achieved due to, among other things, a longer lead time than intended for the performance of the assessments. Internal Audit has included auditing the processes to be carried out in relation to the code of supply in its work program.

## CODE OF SUPPLY

90%

SIGNED



## 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 is compliant on human rights based on international principles such as the OECD Guidelines. We discuss possible risks of discrimination, the right to social security 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. Privacy is an important principle of human rights. People must be able to live in freedom, without everyone knowing everything about them. The Privacy Act gives people more rights and organizations more obligations to handle personal data carefully. Internal Audit covers this theme of human rights as part of its auditing activities. 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.

## TAXES

The tax function within the TKH group is organized in a way that we can ensure the preservation of our reputation and integrity through compliance with applicable tax laws, regulations and ethical standards in the countries where we operate. The tax function upholds the company's core values, will not seek for aggressive tax planning (including tax havens) and is keen to mitigate tax risks. The tax function has a global responsibility for the tax position of TKH Group, in particular when it refers to income tax and related aspects, such as transfer pricing. In executing this responsibility long-term considerations are taken into account as well as the interests of stakeholders.

The tax strategy is aligned with the company's core values and is regularly discussed with the Executive Board. Guidance from public bodies, such as the OECD, provide for guidance in this area, which is closely monitored and followed by TKH. This features for example in the fact that the tax position of TKH reflects the normal conduct of our business as well as the geographical distribution of our activities, meaning that tax is paid where economic activity and value creation occurs. For TKH this is one of the relevant elements relating to fair share tax contributions.

The tax systems across the worlds and the application thereof are becoming increasingly more complex. In order to keep up and comply with these developments, the tax function is subject to continuous training and organizes regular internal training modules for the finance departments of the operating companies, during which tax technical topic are discussed as well as other tax topics, including tax dilemma's.



In our relationship with tax authorities, we strive to build strong, mutually respectful relationships based on transparency and trust. We therefore believe in an open and constructive dialogue with tax authorities. In the Netherlands, this is made explicit in the 'horizontal monitoring' covenant. As is embedded in the horizontal monitoring principle, we actively engage with the Dutch tax authorities to disclose the tax impact of business initiatives and, if required, obtain a ruling. The purpose of such a ruling is to guarantee that the tax qualification of the initiative is in line with the tax policy of TKH and meets the expectations of the Dutch tax authorities, and to ensure that a business initiative is taxed once at a generally accepted tax rate where the business operation takes place.

TKH annually submits a 'country-by-country' report (CbC) to the Dutch tax authorities. Through the appropriate channels, this report is made available to the tax authorities of all countries in which TKH operates.

The following table shows the tax paid in 2019 by region. The tax paid is often different from the calculated tax burden, due to prepayments that differ from the final tax burden. This may be caused by such things as temporary differences, deferred taxation and uncertain tax positions. In 2019, TKH paid a total of € 27.4 million in income tax. As at 31 December 2019, an amount of € 10.2 million in income tax was still payable by TKH on the basis of preliminary tax calculations. Note 33 to the financial statements includes a reconciliation of the effective tax rate.

## CORPORATE INCOME TAX 2019

In thousands of euros	The Netherlands	Europe (other)	Asia	North America	Other countries	Amortization PPA <sup>1</sup>	Total
<b>General information</b>							
Aggregated revenues realized by companies in the country without elimination of intercompany deliveries	825,701	624,303	254,884	139,443	24,099	0	1,868,430
Result before tax	45,849	40,901	16,072	7,026	2,506	-23,008	89,346
Non-current tangible assets	127,067	63,744	33,766	5,844	518	0	230,938
Number of FTEs	2,049	2,377	1,028	424	102	0	5,980
<b>Tax</b>							
Corporation income tax to be paid / claimed at 1 January 2019	-2,309	-3,891	-370	915	-188	0	-5,843
Corporation income tax paid in 2019	-10,961	-10,594	-2,265	-2,396	-1,215	0	-27,431
Corporation income tax to be paid / claimed at 31 December 2019	-1,552	-9,021	-379	972	-255	0	-10,235

<sup>1</sup> Amortization of non-current intangible assets related to acquisitions.



PARTICIPATION VMI 'GREAT OPPOSITION AGAINST CANCER'

## COMMUNITY INVESTMENTS

TKH sponsors social activities and supports charities. We do this from the point of view of 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 technologies and solutions. There is a distinction between sponsorship at TKH (holding company) level and sponsorship at operating company level, which mostly focuses on specific business activities or takes place locally. We also 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 2019, we spent € 0.5 million on sponsorship and donations to charity. This was 0.5% of net profit before one-off income and expenses (2018: 0.4%).

## ANTI-COMPETITIVE BEHAVIOUR AND SANCTIONS

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. Furthermore, no activities are carried out in violation of laws and/or regulations. Naturally, we abide by the applicable competition legislation. Internal Audit has an important auditing function regarding our compliance with laws and regulations. In the event that sanctions by authorities are imposed on our company, we will explain the cause and the corrective actions that have been taken. In 2019, we did not incur any sanctions.

### DONATIONS TO CHARITIES

# 0.5%

OF NET PROFIT



# OUTLOOK

Macroeconomic uncertainties have increased in recent months.

The impact of the coronavirus on TKH seems limited so far, but is yet difficult to estimate. This also applies to the nitrogen and PFAS effects in the Netherlands and possible trade barriers. Barring unforeseen circumstances and an escalation in the aforementioned situations, we expect the following developments per business segment for the year 2020.

## TELECOM SOLUTIONS

We expect a further increase in investments in optical fibre networks in Europe. Since we have a good market position in Europe and have invested in capacity expansions, we expect to be able to realize growth. The current overcapacity in the Chinese market may translate into pressure on margins, but we expect this to be offset by a better product mix.

## BUILDING SOLUTIONS

In Machine Vision, we see continued reluctance to invest on the part of consumer electronics manufacturers and within the automotive sector due to macro-economic uncertainties. Nevertheless, we expect growth as a result of the continued roll-out of our new portfolio and the contribution from acquisition in 2019. In addition, we expect growth in Parking due to a number of larger projects currently in the pipeline. In Marine & Offshore, we expect growth for subsea cable systems based on order intake and ongoing quotations and we intend to scale-up production. This will result in a higher coverage ratio and therefore an improvement of the result. In Tunnel & Infra, we see continued growth in demand for cable systems from the energy sector, which will lead to further growth in turnover. We also expect to realize growth with the AGL portfolio for airports, with the share of our distinctive CEDD technology set to increase. In the other activities within Building Solutions, we expect an improvement in the result due to the effects of our 'Simplify & Accelerate' program.

## INDUSTRIAL SOLUTIONS

Within the industrial sector, there is a reluctance to invest, particularly among German machine manufacturers and in the robot industry, partly due to developments in the automotive industry. As a result, we expect a decline in turnover for industrial connectivity systems, partly due to a targeted discontinuation in part of the portfolio. Order intake in Tire Building declined in the second half of 2019, due to a reluctance to invest as a result of the difficult situation in the automotive industry. We expect a decline in both turnover and result in this segment.

As usual, TKH will give a more specific profit forecast for the full-year 2020 at the presentation of its interim results in August 2020.



# GOVERNANCE

61	MEMBERS EXECUTIVE BOARD
62	MEMBERS SUPERVISORY BOARD
63	REPORT OF THE SUPERVISORY BOARD
72	REMUNERATION REPORT
80	CORPORATE GOVERNANCE AT TKH
86	RISK MANAGEMENT
95	MANAGEMENT STATEMENT
96	THE TKH SHARE



## 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 B.V. Twentsche Kabelfabriek (TKF) and held various management positions, most recently as Commercial Director. In addition to his career at TKF, Mr. Van der Lof was Company Secretary of TKH Group for a number of years. In 1998, Mr. Van der Lof became a member of the Executive Board of TKH Group and Chief Financial Officer. Since 2001 he has been chairman of the Executive Board and Chief Executive Officer (CEO) of 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 Dutch - Chinese cable production companies. Mr. De Lange has been a member of the Executive Board and Chief Financial Officer (CFO) of TKH Group since 2008. Before he joined TKH Group, he served in several international management positions with Ballast Nedam.

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



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

**Harm Voortman** joined TKH's subsidiary VMI Holland B.V. 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  
BELGIAN NATIONALITY 1960

## Chairman

- 2014 first appointment
- 2022 term limit

Chairman Selection and Appointments Committee

- 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  
DUTCH NATIONALITY 1957

## Vice-chairman

- 2017 first appointment
- 2021 term limit

Member Selection and Appointments Committee  
Member Remuneration Committee

- Former Chairman Executive Board TenneT Holding B.V.

## CURRENT POSITIONS

- Member Supervisory Board Koole Oil Terminals B.V.
- Chairman Supervisory Board Attero B.V.

## OTHER FUNCTIONS

- Non-Executive Board Member Urenco Ltd & UCN B.V.
- Chairman Supervisory Board Energyworx B.V.
- Member Advisory Board LVNL
- Member Supervisory Board KVSA B.V.
- Member Advisory Board Groenleven B.V.
- Chairman Advisory Board Rijkswaterstaat
- Advisor Improved/Drake Star B.V.
- Advisor Mitsubishi Corporation



**MRS. C.W. (CARIN) GORTER**  
DUTCH NATIONALITY 1963

## Member

- 2017 first appointment
- 2021 term limit

Member Audit Committee  
Member Remuneration Committee  
(from December 2019)

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

## CURRENT POSITIONS

- Member Supervisory Board Coöperatie TVM U.A.
- Member Supervisory Board Basic Fit
- Member Supervisory Board DAS Holding NV
- Member Monitoring Committee Accountancy (till 01-03-2020)
- External member Audit Committee Ministry of Justice & Security



**MR. P.P.F.C. (PHILIP) HOUBEN**  
DUTCH NATIONALITY 1950

## Member

- 2009 first appointment
- 2021 term limit

Chairman Audit Committee

- Former Chairman of the Executive Board Wavin NV

## CURRENT POSITIONS

- Chairman Supervisory Board NV HVC
- Member Foundation Priority Antea Participaties



**MR. R.L. (ROKUS) VAN IPEREN**  
DUTCH NATIONALITY 1953

## Member

- 2011 first appointment
- 2020 term limit

Chairman Remuneration Committee

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

## 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 companies. 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.

## MEETINGS DURING THE YEAR UNDER REVIEW

In the year under review, five regular meetings and two extra meetings were held which were all attended by the Executive Board. Beside, in the reporting year three closed meetings took place. A member of the Supervisory Board was unable to participate at one scheduled meeting via conference call. In the case of inability to attend, the Supervisory Board member 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.

The Supervisory Board fulfils its tasks of supervising and advising the Executive Board based on both agenda items that recur at every meeting and on specific subjects that are relevant for discussion at a certain moment and to ensure that we remain on course to realize our ambitions.

## STRATEGIC TRANSFORMATION PROGRAM

The year under review was dominated by the 'Simplify & Accelerate' strategic transformation program. As Supervisory Board, we are intensively involved in this program, for example by means of business analyses and portfolio reviews. The effects of the implementation of the transformation program have been discussed at length, partly resulting in an increase in (financial) medium-term targets.

The strategy program takes TKH to the next phase where it focuses on activities with higher organic growth and higher margins while, at the same time, reducing the complexity of the activities by divesting activities with a lower potential for organic growth and margin growth. The aim of this program is to accelerate the value creation of TKH.

Each meeting was explained on the basis of defined action plans, the progress of the program, and the implementation was monitored.





COMPANY VISIT TO ALLIED VISION IN STADTRODA (GERMANY)

Each meeting was used to explain the progress of the program on the basis of defined action plans. The most important topics for consultation and decision-making were:

- The divestments of respectively a majority of the industrial connectivity activities, consisting of eight operating companies, and of the Chinese cable manufacturing activities of copper data communication cables.
- Integration projects of, among other things, the security companies and the 2D-vision companies, which result in a simplification of the organizational structure and a better utilization of economies of scale.
- The intention to discontinue part of the poorly performing activities of the industrial connectivity portfolio and, at the same time, the possibility of implementing a strong improvement in returns on the building connectivity portfolio.
- The acquisitions of ParkEyes (vision security), SVS-Vistek and FocalSpec (both machine vision).

TKH has a successful track record with regard to acquisitions of companies that fit in with the business strategy. With the 'Simplify & Accelerate' program, the focus is also on reducing the number of activities that have

limited potential for value creation due to low organic growth opportunities and relatively low gross margins. This is a new dimension that has been convincingly taken up by the Executive Board and management. As Supervisory Board, we are aware that in this process years of business relations are being broken, which requires professionalism in negotiations and attitudes. We have therefore expressed our appreciation for the way in which divestments were realized in a relatively short period of time.

The progress of the strategic transformation program has a high priority for the Supervisory Board and is closely monitored. Regular evaluation of the implementation will continue to be high on the agenda in the coming year.

### REGULAR MEETINGS

Repeating agenda items, relating such issues as financial developments, acquisition opportunities, investments and divestments, technological, organizational and market developments as well as Investor Relations, are discussed at each regular meeting. Where applicable, the chairman of a relevant committee of the Board gives an explanation of the most important findings of each meeting.

With a view to monitoring the progress of (strategic) initiatives and business developments, the Executive Board provides an explanation of the strategic scorecard at every meeting. This includes clarification of the progress within the business segments on the basis of 'high-lights' and 'low-lights', linked to related action points. In that context, the Board was frequently informed about the progress of innovation projects, including those involving subsea cable systems and CEDD/AGL (airfield ground lighting) as well as 2D and 3D machine vision and manufacturing systems. Information was provided on the R&D roadmap and its progress, the quotation portfolio and other market opportunities, the competitive landscape, possible risks as well as the way in which these risks are managed.

A 'deep dive' presentation was given by the management of TKH Airport Solutions in which the market potential and the positioning of the CEDD/AGL proposition were discussed. By means of a live demonstration, more insight was gained into the technology and the possibilities of the TKH solutions at airports and airfields.



The Supervisory Board is informed of the progress of sustainability initiatives and developments at least once a year. Last year, specific attention was paid to the increasing relevance of non-financial information focused on ESG themes (environment, social and governance) and its alignment with existing sustainability themes. Sustainability is an integral part of (strategic) business decisions and is in that way embedded in the TKH organization.

The content of the press releases about the annual and interim figures were discussed with the entire Supervisory Board prior to publication. A member of the Supervisory Board attended the Capital Markets Day in June 2019.

## COMPANY VISIT

At least one regular meeting is held annually at a location of an operating company. These company visits offer the Supervisory Board the opportunity to come into contact with local management and 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 2019, the Supervisory Board visited TKH operating company Allied Vision in Stadtroda, Germany, which belongs to the TKH 2D-vision group. We were informed about technology and project developments within the 2D-vision group. Special attention was paid to the development of Alvium, an innovative camera platform developed in-house. In the subsequent guided tour, Alvium's various phases of development were highlighted and their applications were demonstrated. The market opportunities were also explained.

The company visit was also an occasion to discuss the planned integration of the 2D-vision companies with local management. The challenges facing management were discussed, together with issues such as portfolio management and the competitive landscape. We very much appreciate the company visits and the contacts with local management and employees because they give us a deeper understanding of local

## TOPICS SUPERVISORY BOARD MEETINGS 2019

Q1 (1 meeting)	Q2 (2 meetings)	Q3 (1 meeting)	Q4 (3 meetings)
<ul style="list-style-type: none"> <li>• Business review.</li> <li>• Financial results and press release.</li> <li>• Investments and divestments.</li> <li>• Supervisory Board committees.</li> <li>• Explanation report external auditor.</li> <li>• Preparation for AGM / dividend proposal.</li> <li>• Remuneration of the Supervisory Board.</li> </ul>	<ul style="list-style-type: none"> <li>• Business review.</li> <li>• Financial results.</li> <li>• Investments and divestments.</li> <li>• Supervisory Board committees.</li> <li>• Strategic transformation program 'S&amp;A'.</li> </ul>	<ul style="list-style-type: none"> <li>• Business review.</li> <li>• Financial results and press release.</li> <li>• Investments and divestments.</li> <li>• Progress 'S&amp;A'.</li> <li>• Supervisory Board committees.</li> <li>• Deep Dive 'Machine Vision'.</li> </ul>	<ul style="list-style-type: none"> <li>• Business review.</li> <li>• Financial results.</li> <li>• Investments and divestments.</li> <li>• Progress of 'S&amp;A'.</li> <li>• Supervisory Board committees.</li> <li>• Budget &amp; Investment Plan 2020.</li> <li>• Update HR.</li> <li>• Update CSR.</li> <li>• Deep Dive 'Airport'.</li> </ul>

activities and the cultural aspect. We also experience the openness and transparency of the presentations and discussions as special.

## CLOSED MEETINGS

The Board met three times in the absence of the Executive Board.

The most important consultation topics were:

- Feedback by the Chairman on his individual evaluation talks with the members of the Executive Board.
- Explanation by the Remuneration Committee of the remuneration proposal for the Executive Board and the proposal adjustment of the remuneration for the Supervisory Board and its committees.
- Evaluation of the functioning of the Supervisory Board, its committees and its individual members, in the presence and under the supervision of an external expert.
- Composition of the Supervisory Board and its committees.

## CULTURE AND ORGANIZATION

TKH has an enterprising culture with a focus on technological development and a proactive approach to the market. Given its decentralized organizational structure, responsibilities are assigned far down in the

organization. The Executive Board sets the example and provides guidance on the proper norms 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 methods and systems to identify and manage risks. Possible risks as well as the risk-management systems are discussed on a regular basis with the Executive Board and openness about risks is encouraged.

HR developments are discussed at least once a year with the Executive Board, focusing on Management Development, the approach and follow-up in respect of succession planning, employee satisfaction and current HR programs. The Supervisory Board endorses the added value of a thorough succession planning strategy that enables key positions to be effectively and efficiently filled. The simplification of the organizational structure, as part of the strategic transformation program, was frequently



COMPANY VISIT TO TKH AIRPORT SOLUTIONS

explained during the year under review. The strategic relevance of diversity within the workforce, including increasing the representation of women at management level and among young potentials, has once again been reaffirmed.

We consider health and safety to be of crucial importance to TKH and its employees. We therefore deeply regret the fact that there was a fatal accident at one of the operating companies during the year under review. The accident was extensively discussed with the Executive Board. It confirms that safety requires constant attention. The Supervisory Board has had the subject of safety high on its agenda for considerable time now and we are frequently kept informed by means of, among others, safety indicators. Discussions with the Executive Board have shown that TKH takes health and safety very seriously and regards it as one of its top priorities, with the aim being a vital organization and to create more safety awareness.

### COMPOSITION AND DIVERSITY

The Supervisory Board is composed in such a way that knowledge, experience and insight in relation to actual topics for TKH are represented well as well as markets and activities relevant to TKH. Each member of the Supervisory Board possesses the specific expertise necessary to fulfil this role and carry out this task. The effectiveness of the Board is determined by the team composition in terms of knowledge and competencies as well as the mutual cooperation. Continuity in the composition is of great value, also in view of the Board's integral accountability for the consideration of various (strategic) interests, directed towards long-term value creation. The Supervisory Board therefore basically applies a maximum term of office of 12 years, whereby an annually (self)evaluation as well as an evaluation prior to each reappointment takes place, to determine whether the profile for the composition of the Supervisory Board is up-to-date and whether the match between the expertise, competencies and performance of the candidate in question is correct.

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. In the case of larger companies, there is a best-efforts obligation to use a quota

of at least 30% female and at least 30% male for the composition of the Supervisory Board, insofar as these seats are occupied by natural persons. This subject received permanent attention during the year under review, also in the context of the current schedule of retirement in relation to safeguarding continuity within the Supervisory Board. 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. 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').

The Supervisory Board has - partly for practical reasons - 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.

At the end of the AGM of 7 May 2020, Mr. R.L. (Rokus) van Iperen will step down in accordance with the applicable schedule of retirement. Under the regulations of the Supervisory Board and the articles of association of TKH, Mr. Van Iperen may be reappointed for a further period of two years. Mr. Van Iperen has indicated that he is available for reappointment. The Supervisory Board has discussed the reappointment of Mr. Van Iperen, and its members are of the unanimous opinion that his knowledge, experience and added value match the desired expertise, as set out in the profile drawn up by the Supervisory Board. The members of the Supervisory Board consider the reappointment of Mr. Van Iperen to be in the best interests of TKH, given his extensive knowledge of the company and his excellent performance as a Board member. His broad experience as a director with ultimate responsibility and as entrepreneur, as well as his expertise in the field of technology, together with his experience in international listed companies, fit in well with the required expertise and competences.

Due to the expiry of the maximum mandated term of office of 12 years set out in the articles of association, Mr. P.P.F.C. (Philip) Houben will step

down as per the 2021 General Meeting of Shareholders. With a view to ensuring knowledge and continuity within the Supervisory Board, a selection procedure for the succession of Mr. Houben was launched during the year under review. In filling the vacancy a candidate with broad international experience within an international company, with an affinity for TKH's technology and activities, was sought. Mrs. M. (Marieke) Schöningh MBA agreed to fill the vacancy and join the Supervisory Board. The Supervisory Board will nominate Mr. Van Iperen and Mrs. Schöningh as candidates for reappointment respectively appointment to the Supervisory Board at the 2020 General Meeting of Shareholders, on the condition that the shareholders at that meeting do not invoke their right of recommendation. The Central Works Council was notified of the reappointment and the vacancy, and profiles of prospective candidates. The Central Works Council has stated that it does not wish to invoke its right of recommendation for the reappointment of Mr. Van Iperen. For the vacancy on the Supervisory Board, the Central Works Council exercised its enhanced right of recommendation and recommended Mrs. Schöningh for this vacancy.

### 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. On the basis of company visits, among other things, the core technologies and commercial themes are explained, which also concerns the continuing education of members of the Supervisory Board.

### CONTACT WITH THE CENTRAL WORKS COUNCIL

A delegation of the Supervisory Board discussed business strategy and the general state of affairs with the Central Works Council. Also the themes were considered that currently live within the individual works councils, such as sustainable staff employability and the mutual cooperation between operating companies. Within the framework of the (enhanced) right of recommendation of the Central Works Council, open and constructive consultation took place on the reappointment respectively appointment to the Supervisory Board. Due to the implementation of the new EU Shareholders' Directive, the Remuneration Policy of the Supervisory Board and Executive Board was discussed.

The members of the Supervisory Board have great respect for the professional manner in which the Central Works Council deals with important developments affecting TKH. We regard the consultation with the Central Works Council as being 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 state, among other things, 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. The chapter on Corporate Governance in this annual report describes the tasks and focus areas of the separate committee.

### SELECTION AND APPOINTMENTS COMMITTEE

The Selection and Appointments committee comprises Mr. A.J.P. De Proft MSc (chairman) and Mr. J.M. Kroon MBA. The Selection and Appointments Committee met once in the past year at a formal meeting. The committee also had frequent (telephone) contact on current issues, in particular with regard to the preparation and selection of the new member of the Supervisory Board. The Committee conducted interviews with external advisors as well as with potential candidates. The Committee also prepared the evaluation of the Supervisory Board in cooperation with an external advisor. The Selection and Appointments Committee reported the most important findings of each of its meetings to the Supervisory Board.

### REMUNERATION COMMITTEE

The Remuneration Committee consists of Mr. R.L. van Iperen (chairman), Mr. J.M. Kroon MBA and Mrs. C.W. Gorter. The Remuneration Committee met once during the year at a formal meeting. In addition, internal consultations took place several times in the context of the preparatory work, among others in presence of the external advisor. The committee also had frequent telephone consultations. In its meeting in February, the Committee discussed the remuneration policy and evaluated the

realization of the targets of the Executive Board, partly in the presence of the chairman of the Executive Board. The targets for the Executive Board for the current financial year were also discussed. Based on the achieved targets, the Committee presented a proposal for the remuneration of the Executive Board during a closed meeting of the Supervisory Board and a decision on this remuneration was taken.

Due to the implementation of the legislative proposal for a revised EU Shareholders' Directive, there has also been frequent contact about the developments and consequences of this legislation. In cooperation with the company and an external advisor, the remuneration policy of the Executive Board and Supervisory Board was checked against the provisions of this legislation. The Committee found that the current policy supports the long-term value creation of TKH and offers effective remuneration to the Executive Board, so that no changes have been made to the content of the policy. The Remuneration Committee reported the main findings from its meeting to the Supervisory Board.

### AUDIT COMMITTEE

The Audit Committee comprises Mr. P.P.F.C. Houben (chairman) and Mrs. C.W. Gorter, with the latter considered to be the expert in drawing up and auditing the financial statements. The Audit Committee had five meetings in the year under review. The meetings of the Audit Committee were held in the presence of the external auditor, CFO, Director Internal Audit and Director of Finance & Control of TKH. During two meetings, TKH's Tax Director was present to provide an explanation of national and international tax developments, specific tax themes that are important for TKH - such as the application of the Dutch innovation box regime - specific structuring issues as well as tax compliance and risk management issues.

The Audit Committee discusses with the external auditor the audit plan on the basis of which it carries out its 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. In addition, at each meeting, the Director Internal Audit provides an explanation of his findings in relation to the general audit activities carried out.



An ongoing consideration for the 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 impact of the IFRS standards 9, 15 and 16 on the profit and loss account and balance sheet. Because of the relevance of IT & Security for both the day-to-day operations and TKH's business model in the context of software development and R&D, high priority is given to the topic at every Audit Committee meeting. A report explains the results of the IT audits as part of the IT & Security policy and monitors the progress of points for improvement. An overview of possible IT risks forms part of the report.

During the year under review, the key audit matters identified by the external auditor were discussed. These key audit matters focus on, for example, sensitivities and estimates by management with regard to items related to the 'Simplify & Accelerate' program, the valuation of goodwill and non-current intangible assets, the valuation of assets in relation to new business activities, revenue recognition, the valuation of capitalized development costs and compliance with legislation and regulations.

The Audit Committee was informed about the financial treatment under IFRS of the divestment of a majority of the industrial connectivity activities as discontinued operations and its impact on the profit and loss account and on the comparative figures of the previous financial year.

At one meeting, the forensic expert of the external auditor gave a presentation on the subject of fraud risks and corruption. Forensic expertise is used when drawing up the audit plan and when performing the audit activities in order to gain a clearer picture of the risks of fraud and internal control measures, in view of the increasing attention paid to fraud and corruption in society. A specific work program has been drawn up on this subject and presented to the Audit Committee. Possible fraud risk areas have also been identified.

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 of the financial statements. The most important themes addressed in this context concern the financial closing process in connection with, for example, the impact of the 'Simplify & Accelerate'

program, implementation and application of the Internal Control Framework, capitalized development costs as well as IT audits and the design of TKH's risk management system in the context of cyber security.

The Audit Committee evaluates the performance of the external auditor annually with regard to the quality of the audit activities, the adequacy and implementation of the audit engagement, and the quality and depth of the reports and any additional contributions. The Committee discusses its findings with the external auditor, as well as with the Supervisory Board and Executive Board. The Audit Committee also evaluates the functioning of the Director Internal Audit. Input for the evaluation includes the follow-up of the points for attention and improvement of the audit activities as formulated by the external auditor and TKH with regard to the previous financial year. The Audit Committee also 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 taken into account in this. The Audit Committee then submits a proposal to the Supervisory Board for commissioning the external auditor to audit the financial statements.

Within the framework of the Audit Firms Supervision Act, the partner responsible for the audit of the 2020 financial statements is due for rotation. Accordingly, a selection process for the succession of the current partner was initiated, during which both the Audit Committee and TKH held various interviews with several candidate partners. As a result, Mr. Frank Blenderman has been proposed to the 2019 General Meeting of Shareholders as the partner responsible for the audit of the 2020 financial statements.

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

Meeting	A. De Proft	M. Kroon	C. Gorter <sup>1</sup>	P. Houben	R. van Iperen
Supervisory Board	7/7	6/7	7/7	7/7	7/7
Remuneration Committee		1/1			1/1
Selection and Appointments Committee	1/1	1/1			
Audit Committee			5/5	5/5	

<sup>1</sup> Mrs. C.W. Gorter has been a member of the Remuneration Committee since 1 December 2019.



COMPANY VISIT TO TKH AIRPORT SOLUTIONS

In 2019, 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. The Audit Committee reported the most important findings of its meeting to the Supervisory Board.

### EVALUATION

The assessment of the Supervisory Board was supervised this year by an external advisor. The effort and participation of each individual member of the Supervisory Board was discussed one-to-one with them, as well as the decision-making process within the Board, the quality of the decisions, the relation to the (members of) the Executive Board, the performance of the Chairman, the various committees of the Board and the Supervisory Board as a whole. The members of the Executive Board were also interviewed. In a closed meeting, the external advisor explained the outcome of the evaluation. Based on the assessment it was concluded that the Supervisory Board as a whole as well as the individual members functioned properly. The open relationship is marked by mutual respect. The members complement one another sufficiently within the framework

of the advisory and supervisory role towards the company, while covering a wide range of focus areas and representation of expertise. The composition was also discussed in terms of available and desired expertise within the Board.

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. This was confirmed by the way in which the Supervisory Board is involved in the strategic transformation program. It has been determined 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 has also been observed 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 Chairman of the Executive Board.

### FINANCIAL STATEMENTS 2019

The Report of the Executive Board and the 2019 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, 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 2020. The Supervisory Board submits the financial statements for the 2019 financial year to the AGM and recommends adopting the financial statements. The Supervisory Board is of the opinion that the financial statements constitute a sound basis for the account given by the Executive Board of its management and by Supervisory Board of its supervision of the management. The Supervisory Board also proposes to approve the proposed profit appropriation and to discharge the Executive Board in respect of the policy pursued and the Supervisory Board in respect of the supervision conducted.

**FINALLY**

The strategic transformation program introduced in the year under review has created a new dynamic in the TKH organization. Under the leadership of the Executive Board, it has been demonstrated that TKH has an enormous drive to make the program a success. The progress that has already been made in the announced actions to make efficiency improvements shows that TKH is a professional and decisive organization that can respond quickly to circumstances. On the other hand, we realize that such a transformation process also involves taking difficult decisions and that the social aspect weighs heavily in this respect. The professionalism that is then shown is exceptional. The Supervisory Board is convinced that the already existing, solid foundation combined with the results from the strategic transition will further strengthen sustainable profitability.

The Supervisory Board would like to take this opportunity to thank TKH's business partners for their long-term business relationship and its shareholders and holders of depositary receipts for the confidence they have shown. We would like to express our sincere appreciation and gratitude to the Executive Board and all TKH employees for their valuable contribution in 2019 and look forward to the further successful implementation of the strategic transformation program.

Haaksbergen, 4 March 2020

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

# REMUNERATION REPORT

The Remuneration Report describes the implementation of the remuneration policy for the members of the Executive Board and the Supervisory Board.

The revised remuneration policy will be proposed by the Supervisory Board for adoption by the 2020 General Meeting of Shareholders, on 7 May 2020, with effect from 1 January 2020. As TKH has not yet received an advisory vote on the remuneration report for the Executive Board (as referred to in Section 135b, Book 2 of the Netherlands Civil Code), TKH cannot yet take into account the votes cast and the positions of shareholders on this matter. It will take such votes and positions into account in the event of future amendments to the remuneration policy, such in accordance with article 1.2. of the remuneration policy. The remuneration policy will be submitted to the General Meeting of Shareholders for adoption every time an amendment is made and at least every four years after it has been approved by and on the proposal of the Supervisory Board. The Remuneration Committee is responsible for developing the remuneration policy and submitting a proposal to the Supervisory Board. The Remuneration Committee has taken into account best practice provision 3.1.2. of the Code.

## REMUNERATION POLICY EXECUTIVE BOARD

The remuneration 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. The policy recognizes the internal and external context as well as the TKH business needs and long-term strategy. The policy is designed to stimulate long-term value creation for TKH and its affiliated companies, taking into account the provisions for good corporate governance. The policy is aimed at motivating performance, using financial and non-financial performance measures, combined with the careful assessment of risks and the right entrepreneurship. The remuneration package is measured

periodically against market trends using information provided by external experts. In addition, the internal remuneration ratios are taken into account. Based on the targets set, the Remuneration Committee performs scenario analyses in respect of the Short-Term Incentive (STI) and Long-Term Incentive (LTI) to be achieved.

The remuneration policy and corporate strategy are aligned by creating specific short-term and long-term targets that link the remuneration of each of the members of the Executive Board to the success of the company. The size of the LTI (Long-Term Incentive) in the total remuneration package and the fact that the members of the Executive Board have to invest for their own account in the same number of shares as they are granted within the framework of the LTI, are important factors in developing values in terms of long-term value creation and the continuity of the company. For the full remuneration policy we refer to the TKH website.

## APPLICATION OF THE POLICY IN 2019

The remuneration payable to the members of the Executive Board comprises a basic salary (TRI - Total Regular Income), a pension commitment and a variable remuneration component consisting of an annual performance bonus (STI - Short-Term Incentive) and a long-term incentive (LTI) in the form of a share plan.

The Supervisory Board sets targets, as well as their respective weightings and criteria for the year in question, in accordance with the company's strategy and overall structure, taking account of both financial and non-financial factors, as well as personal targets.



In this respect, the Supervisory Board takes the following into account:

- Targets must be derived from the company’s strategy.
- Emphasis should be placed on targets that are essential for long-term value creation.
- Past performance, business prospects and conditions.
- Expectations of stakeholders.

While financial and non-financial targets focus on the realization of overall strategic business objectives and sustainability ambitions, personal targets should relate to the specific role of the Executive Board as a collective and of each individual member within the Executive Board. The personal targets look at the company’s mission and its identity and ESG (environmental, social & governance) targets, as well as important strategic issues for the coming year. The above will ensure that the STI contributes to the strategy, long-term interests and sustainability of TKH.

In formulating the proposal for the remuneration of the members of the Executive Board, the external assessment and the remuneration policy are among the issues to be considered. In accordance with the Corporate Governance Code, the Remuneration Committee takes note of the views of the individual members of the Executive Board with regard to the level and structure of their own remuneration. The remuneration of the members of the Executive Board was externally reviewed in 2017 and adjusted to market conformity, it was concluded at that occasion that the policy pursued with regard to the TRI, STI and LTI meets the objectives set. There has been no deviation from the decision-making process for the implementation of the remuneration policy.

### 1. Labour market reference group

In order to attract qualified managers for the Executive Board and to retain the current members for the Executive Board for the long-term, TKH takes into account external reference data when determining appropriate remuneration levels. To this end, a specific labour market reference group has been established. The emphasis is on the AMX companies on

Euronext Amsterdam, with a particular focus on companies that are more or less comparable to the company in terms of complexity, size and international scope of their activity portfolio.

The Remuneration Committee, supported by external experts, regularly evaluates this reference group to ensure that its composition remains appropriate. As an additional assessment of developments specific to the business sector, a reference group consisting of (international) sector peers is used.

The following reference group has been used for 2019:

### REFERENCE GROUP 2019

#### AMX

Air France-KLM	Corbion
Arcadis	Fagron
ASM International	Fugro
Koninklijke BAM Groep	GrandVision
Basic-Fit	PostNL
BESI	SBM Offshore
Boskalis	Signify

#### SECTOR PEERS (international)

Aalberts Industries
Prysmian
Basler
Cognex
Keyence

Although the external market data provide a useful context, it is ultimately the responsibility of the Remuneration Committee and the Supervisory Board to determine appropriate remuneration packages that reflect the specific context and requirements of TKH and the skills and capabilities of the individual members of the Executive Board. The external market data as such are used to inform and not to determine decision making. The Remuneration Committee evaluates the external market data and, if necessary, makes recommendations to the Supervisory Board for approval.

## TOTAL REMUNERATION EXECUTIVE BOARD

	Basic salary (TRI)		Variable Income (STI)		Share Plan (LTI)		Pension costs		Pension compensation		Total	Ratio variable to total		
In thousands of euros	2019	2018	2019 <sup>3</sup>	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
J.M.A. van der Lof MBA	578	559	203	279	352	581	38	35	153	131	1,325	1,585	41.9%	54.3%
E.D.H. de Lange MBA	433	419	153	209	264	436	16	15	46	45	912	1,124	45.7%	57.4%
H.J. Voortman MSc <sup>1</sup>	393	226	138	113	240	235	16	10	41	22	828	606	45.7%	57.3%
A.E. Dehn <sup>2</sup>		114						22		12		148		
<b>Total remuneration</b>	<b>1,404</b>	<b>1,318</b>	<b>494</b>	<b>601</b>	<b>856</b>	<b>1,252</b>	<b>70</b>	<b>82</b>	<b>240</b>	<b>210</b>	<b>3,066</b>	<b>3,463</b>	<b>44.1%</b>	<b>53.5%</b>

<sup>1</sup> Appointment member Executive Board with effect from 3 May 2018. The remuneration presented above is as of the date of appointment.

<sup>2</sup> Member of the Executive Board until 3 May 2018. Mr. Dehn has also received a severance payment of € 338,000.

<sup>3</sup> Realized in 2019, paid out in 2020.

Due to the display of the amount x€ 1,000, rounding differences in total counts may occur.

### 2. Total 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. Every three years - or more frequently at the initiative of the Supervisory Board - advised by external experts, an assessment and evaluation of the remuneration is made based on the developments of the labour market reference group referred to in the Remuneration policy. The table above shows the various remuneration components as well as the relative share of the fixed and variable remuneration.

### 3. Basic salary (Total Regular Income: TRI)

In principle, the basic salary of the Executive Board is adjusted annually, with the collective bargaining agreement for the large-scale metalworking and electrical industry (FME) serving as a guideline. As per 1 January 2019, the adjustment amounted on average 3.45%. For Mr. Voortman, appointed on 3 May 2018, the total increase as per 1 January 2019 amounted € 50,000.

### 4. Other Emoluments

The other emoluments of the members of the Executive Board are in accordance with what is generally used within the organization.

### 5. Performance bonus (Short-Term Incentive: STI)

Variable remuneration represents a major component of the remuneration package for the Executive Board. Each year, targets and criteria are formulated in advance on the basis of which the performance bonus can be achieved, and these are set by the Supervisory Board. The amount of the performance bonus is determined by the extent to which targets and criteria are met. On the recommendation of the Remuneration Committee, the Supervisory Board sets the performance bonus amount on the basis of the goals and criteria that have been met. The maximum performance bonus has been set at 60% of basic salary (TRI). Realization 'at target' leads to payment of a bonus of 40% of the TRI.

The realization of 50% of the maximum bonus is based on EBITA targets and 30% is based on organic turnover growth targets. The remaining 20% of the maximum bonus is determined by the achievement of strategic objectives for the Executive Board as a whole and personal objectives for the individual member of the Executive Board. The Supervisory Board has the discretionary power to deviate from the targets set if special circumstances apply. Possible differentiation in the STI per member of the Executive Board takes place because of the final scores on the personal objectives.

The realization of targets for 2019 resulted in an STI for Messrs. Van der Lof, De Lange and Voortman of 35.2%, based on the realization of 88% of the maximum performance bonus.

The Supervisory Board has the discretionary power to reclaim the variable remuneration awarded on the basis of incorrect (financial) data from the members of the Executive Board. In line with the claw-back legislation, payment of the variable remuneration to the members of the Executive Board is subject to the accuracy of the relevant (financial) data.

For 2019, there was no full or partial recovery of a bonus as referred to in Article 135 (8).

## 6. Share plan (Long-Term Incentive: LTI)

Within the framework of the long-term targets, a share plan is in force which provides for a long-term incentive. The plan makes it possible for members of the Executive Board to acquire shares free of charge, provided that the members of the Executive Board purchase the same number of shares for their own account at the market price then prevailing. The amount of remuneration depends on the development of the following KPIs: Return on Capital Employed (ROCE) and Return on Sales (ROS) in relation to the pre-formulated objectives, and the share price development of the TKH share compared to the AMX index of Euronext Amsterdam (relative share price development). These three KPIs determine whether shares can be awarded and how many shares may be acquired free of charge. The shares acquired and individually purchased in a given year under the LTI plan must be held as a long-term investment and may not be sold for a period of three years.

The performance period of ROS and ROCE is one year, with the performance ranges being set at the beginning of the year, taking into account the medium-term objective. The performance period of the relative share price development is three years. For the 2019 allotment, the period from 1 January 2017 up to and including 31 December 2019 was taken into account. For the ROS, a performance range applies from 0.50 to 1.25, with the at target gives a score of 1.0. The score of this KPI results in a multiplier, which determines the final score achieved.

The ROCE also has a performance range of 0.5 to 1.25, with an at target score of 1.0. The score for this KPI is also equal to a multiplier. The performance range for the relative share price development ranges from 0.75 to 1.50 with an at target score of 1.0.

This score is converted into a multiplier, ranging from 0.5 to 1.8, with 1.0 being the at target multiplier. The level of the allocation of the total LTI is calculated as a multiplier per KPI. These multipliers are multiplied by the standard allotment. The standard allotment is net and is equal to 50% of the gross basic salary (TRI). The gross value of the standard allotment is therefore approximately equal to the gross base salary (TRI). The minimum allotment for the LTI in a year is 0.25 x the standard allotment and the maximum allotment is 2.7 x the standard allotment.

## STI PERFORMANCE EXECUTIVE BOARD 2019

	Description of the performance criteria and type of remuneration	Relative weighting of the performance criteria	Maximum pay-out level (at target = 100%)	Pay-out level based on actual performance	Weighted average pay-out level	Realization (€ x 1,000)
J.M.A. van der Lof MBA	Turnover	30%	150%	102%	88%	203
	EBITA	50%	150%	61%		
	Personal targets	20%	150%	135%		
E.D.H. de Lange MBA	Turnover	30%	150%	102%	88%	153
	EBITA	50%	150%	61%		
	Personal targets	20%	150%	135%		
H.J. Voortman MSc	Turnover	30%	150%	102%	88%	138
	EBITA	50%	150%	61%		
	Personal targets	20%	150%	135%		

## SHARES EXECUTIVE BOARD

	Balance 1/1	Shares free of charge	Individually purchased shares	Disposal (at least 3 years in portfolio)	Balance at year-end
<b>J.M.A. van der Lof MBA</b>					
2018 (for the 2017 financial year)	143,147	8,562	8,562	-17,124	143,147
2019 (for the 2018 financial year)	143,147	7,548	7,548	-20,096	138,147
<b>E.D.H. de Lange MBA</b>					
2018 (for the 2017 financial year)	91,468	6,421	6,421	-12,842	91,468
2019 (for the 2018 financial year)	91,468	5,661	5,661	-11,322	91,468
<b>H.J. Voortman MSc <sup>1</sup></b>					
2018					11,447
2019 (for the 2018 financial year)	11,447	4,638	4,638		20,723
<b>A.E. Dehn <sup>2</sup></b>					
2018 (for the 2017 financial year)	45,204	5,261	5,261	-5,261	50,465

<sup>1</sup> Appointment to the Executive Board with effect from 3 May 2018.

<sup>2</sup> Member of the Executive Board until 3 May 2018.

Based on the actual performance compared to the performance ranges, the following multipliers were achieved per KPI:

- ROS: 0.84
- ROCE: 0.83
- Relative share price development: 1.02

On the basis of these multipliers, the allotment per member of the Executive Board has the following net value:

J.M.A. van der Lof MBA:  $0.84 \times 0.83 \times 1.02 \times 50\% \times \text{TRI} = \text{€ } 205,439$

E.D.H. de Lange MBA:  $0.84 \times 0.83 \times 1.02 \times 50\% \times \text{TRI} = \text{€ } 154,075$

H.J. Voortman MSc:  $0.84 \times 0.83 \times 1.02 \times 50\% \times \text{TRI} = \text{€ } 139,823$

The corresponding gross values are included in the table 'total remuneration' on page 74.

The number of (depository receipts of) shares, associated with the net allotment, will be calculated on the basis of the average closing price of the three trading days from the time of publication of the annual figures.

The shares in question must be held as a long-term investment and may not be transferred for a period of three years after their respective allocation. 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 allotted free of charge within the framework of the plan. Because of this financial compensation for the members of the Executive Board, the stipulation is that the shares must be held for at least three years, since this plan imposes a private investment obligation on the individual members of the Executive Board.

No option rights are granted to the members of the Executive Board.

Any option rights of a member of the Executive Board were allotted in the period before he became a member of the Executive Board and can be exercised in accordance with the option plan and during the applicable exercise periods. H.J. Voortman's option rights apply to the period before he became a member of the Executive Board. The movement and balance of the outstanding option rights awarded to him are presented in the table below.

## 7. Pension

The Remuneration Committee is responsible for ensuring that the members of the Executive Board are provided with a pension that is in line with normal practice and consistent with the provisions made for similar positions. 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

## OPTION RIGHTS H.J. VOORTMAN MSc

Year of allotment	Exercise rate in €	Number at 01-01-2019	Allotted during the year	Movement during the year	Expired during the year	Exercised during the year	Number at 31-12-2019	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
<b>Total</b>		<b>39,750</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>39,750</b>	



pension in the event of death. This is subject to conditions similar to those that apply to members of the collective pension fund, i.e. employees of TKH.

## 8. Pay-ratio

For the sake of transparency and clarity, the company applies a method to calculate the internal pay-ratio. The company's internal pay-ratio is calculated as the average total salary of the members of the Executive Board divided by the average total salary of employees (total salary costs divided by the average number of FTEs). The other elements of the terms of employment have a minor influence on the pay-ratio and as such are not taken into account in its calculation. The Remuneration Committee monitors changes in the pay-ratio on an annual basis and takes this into account when assessing the level of remuneration of the members of the Executive Board.

The pay-ratio is calculated on the basis of the average total salary per FTE within TKH Group and the average total salary of TKH's Executive Board (TRI, STI and LTI). The pay-ratio for 2019 is 18.92 (2018: 21.92).

## 9. Comparative information on the change in remuneration and operational performance

The table below represents the change of the remuneration of the Executive Board compared with the change of TKH's company performance.

## 10. Personal loans

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

## 11. Change of Control

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

## 12. Severance pay

The remuneration in the event of dismissal amounts to a maximum of one year's salary (TRI). No severance pay is paid if the contract is terminated prematurely on the initiative of the director or if the director has acted seriously culpably or negligently.

## CHANGE OF REMUNERATION EXECUTIVE BOARD AND COMPANY PERFORMANCE

in thousands of euros stated otherwise	2019	2018	2017	2016	2015
<b>Remuneration Executive Board <sup>1</sup></b>					
J.M.A. van der Lof MBA	1,134	1,419	1,656	1,209	1,736
E.D.H. de Lange MBA	850	1,064	1,116	816	1,135
H.J. Voortman MSc <sup>2</sup>	772	574	0	0	0
A.E. Dehn <sup>3</sup>	0	114	916	678	947
<b>Company performance</b>					
ROS	11.6%	11.3%	10.1%	10.9%	11.0%
Organic growth	-1.9%	9.4%	8.8%	-0.8%	-2.6%
CO <sub>2</sub> reduction (vs 2015) <sup>4</sup>	-5.4%	-2.9%	0.9%	3.8%	-15.6%
Illness rate	3.26%	3.47%	3.35%	2.98%	2.91%
<b>Average total salary per FTE</b>	49	48	47	46	45
<b>Pay-ratio Executive Board</b>	18.92	21.92	26.43	19.54	28.01

<sup>1</sup> On the basis of TRI, STI and LTI.  
<sup>2</sup> Appointment Executive Board with effect from 3 May 2018.  
<sup>3</sup> Member Executive Board until 3 May 2018.  
<sup>4</sup> 2015: vs reference year 2008.

## REMUNERATION POLICY SUPERVISORY BOARD

The policy aims at providing a competitive compensation package to attract, motivate and retain qualified Supervisory Board members for a publicly listed company, while considering TKH's size and unique characteristics. TKH's strategy is directed towards achieving technological leadership with a strong position in seven vertical growth markets. TKH aims 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. The policy is designed in the context of national and international market trends, statutory requirements, corporate governance best practice, the societal context around remuneration and the interests of TKH's shareholders and other stakeholders. The compensation package is measured periodically against market trends using information provided by external experts.

The overriding principle of TKH's remuneration policy is to ensure fairness and transparency. The remuneration structure has been designed to promote Supervisory Board members for an adequate performance of their role and is not dependent on the financial results of TKH. The Supervisory Board acknowledges its responsibility to be aligned with the identity, mission and key values of TKH.

In that context, it has been decided to have only a fixed remuneration income and no variable remuneration to be able to have an independent and objective role with respect to the realization of TKH's strategy, the targets, the long-term value creation and sustainability. For the full remuneration policy, we refer to TKH's website.

### APPLICATION OF THE POLICY IN 2019

#### 1. Remuneration

The remuneration is aimed at remunerating the members of the Supervisory Board in line with the market on the basis of their activities, experience and the related allocation of roles within the Board and its committees. The remuneration is periodically assessed externally with the same reference group being used as for the Executive Board. The remuneration of a member of the Supervisory Board is not dependent on TKH's results. No shares and/or rights to shares are granted to the members of the Supervisory Board. Any shares held by a member of the Supervisory Board are for long-term investment purposes. The General Meeting of Shareholders adopted the remuneration of the Supervisory Board in 2019, with effect from 1 January 2019.

The remuneration of the Supervisory Board is as follow:

In thousands of euros	2019
Chairman Supervisory Board	60
Member Supervisory Board	45
Chairman Audit Committee	10
Member Audit Committee	7
Chairman Remuneration Committee / Selection and Appointments Committee	8
Member Remuneration Committee / Selection and Appointments Committee	6

If circumstances require members of the Supervisory Board to perform substantially more than the normal activities (more than 30 days), they will receive a remuneration of € 1,000 for each part of a day with a maximum of € 2,000 per day.

## 2. Total remuneration

The table below shows the total remuneration of the individual members of the Supervisory Board.

	Regular remuneration	Remuneration membership committees	Total	Total
In thousands of euros			2019	2018
A. de Proft MSc, <i>chairman</i>	60	8	68	47
P.P.F.C. Houben	45	10	55	44
R.L. van Iperen	45	8	53	43
C.W. Gorter	45	7	52	42
J.M. Kroon MBA	45	12	57	40
M.E. van Lier Lels <sup>1</sup>			0	18
<b>Total remuneration</b>	<b>240</b>	<b>45</b>	<b>285</b>	<b>234</b>

<sup>1</sup> Member of the Supervisory Board until 3 May 2018.

## 3. Share ownership of the Supervisory Board

Mr. A.J.P. De Proft owns 2,000 (depository receipts of) shares in TKH as from 2014. The other members of the Supervisory Board do not hold any (depository receipts of) shares in TKH.

## 4. Comparative information about the change of remuneration Supervisory Board

	2019	2018	2017	2016	2015
In thousands of euros					
A. de Proft MSc, <i>chairman</i>	68	47	43	36	36
P.P.F.C. Houben	55	44	44	44	44
R.L. van Iperen	53	43	42	42	42
C.W. Gorter <sup>1</sup>	52	42	28		
J.M. Kroon MBA <sup>1</sup>	57	40	24		
H.J. Hazewinkel <sup>2</sup>			27	53	53
M.E. van Lier Lels <sup>3</sup>		18	44	44	44
<b>Total remuneration</b>	<b>285</b>	<b>234</b>	<b>252</b>	<b>219</b>	<b>219</b>

<sup>1</sup> As from May 2017.

<sup>2</sup> Up to and including May 2017.

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

# CORPORATE GOVERNANCE

TKH Group N.V. 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 AT TKH

### 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 derogation 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 TKH deviates. Additional information on TKH's Corporate Governance is available on the website.

### 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 its 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. Non-financial aspects of business operations, such as environmental, social and personnel matters as well as risk-management aspects, are carefully considered. Given that the aspects from the Code relating to long-term value creation are covered in detail in the report of the Executive Board, we refer to that report for an explanation of these provisions.

### 2. EFFECTIVE MANAGEMENT AND SUPERVISION

#### EXECUTIVE BOARD

##### Tasks, responsibilities and composition

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. The Executive Board is responsible for achieving predefined goals, 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 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 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.

## COMPOSITION

The composition and size of the Executive Board are based on TKH’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 composition of the Executive Board represents a good balance in terms of diversity of background, skills, work experience and age. The Executive Board currently comprises three male members. There is a best effort obligation for larger companies to have the Executive Board composed of at least 30% women and at least 30% men, insofar as these seats are occupied by natural persons. This is not being achieved at the moment. For any future vacancies, gender diversity is a key element, in addition to the quality, expertise and experience of the candidate. TKH has set itself the target of achieving a more balanced spread over the medium-term in terms of gender diversity within the group strategic management. This group plays a key role in the development of TKH Group and acts as a sounding board for the Executive Board, as well as being relevant when it comes to succession planning.

The Executive Board has regulations that describe its tasks, as well as its relationship with various forums, including the Supervisory Board, the shareholders and holders of depositary receipts, the General Meeting of

Shareholders and the employee representation body. For practical reasons, the Executive Board has an internal allocation of duties, aimed at the responsibilities of the individual members for specific functional and business areas.

The Executive Board ensures a balanced and effective decision-making process, while taking account as far as possible of the interests of the stakeholders. Providing clear information in good time is inextricably linked to this.

The Executive Board, both as a whole and each individual member, is independently authorized to represent the company.

The members of the Executive Board are appointed by the General Meeting of Shareholders by binding nomination of the Supervisory Board. With regard to the appointment, suspension or dismissal of members of the Executive Board, we refer to provisions in the company’s articles of association.

## 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 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, presentations and training are used to focus attention on ethics and integrity. The Executive Board is alert to signals of (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.

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

- The provision with respect to the maximum term of appointment of four years (2.2.1) will not be followed for two of the three Executive Board members. Mr. J.M.A. van der Lof MBA has been employed by TKH since 1985 and was appointed 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 2018 General Meeting of Shareholders, Mr. Voortman was appointed to the Executive Board by the General Meeting of Shareholders for a term of four years by binding nomination by the Supervisory Board. The appointment is for a period of four years from the time of closing of said General Meeting of Shareholders until the closing of the Annual General Meeting of Shareholders in 2022.
- In terms of the diversity policy for the Executive Board, the current composition deviates from the target figure for a balanced distribution of seats between men and women in the Executive Board. 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 service, comprising the Director Internal Audit assisted by the Internal Auditor. The Director Internal Audit falls under the responsibility of the Executive Board and has direct access to the external auditor and to the Audit Committee. The Supervisory Board maintains oversight of the Internal Audit function, with this oversight being carried out for pragmatic reasons by the Audit Committee. One task of the Internal Audit function is to assess the set-up and the functioning of the internal risk management and control systems as per the COSO 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 permanent point of attention. In order to ensure that the Internal Audit function meets the highest standards and to guarantee independence and objectivity, the IIA standards (of the 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 companies. 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 and takes into account the relevant interests of all stakeholders.

The Supervisory Board ensures that it functions effectively. As per the Code, the Board has installed a Selection and Appointments Committee, a Remuneration Committee and an Audit Committee to prepare the Board's decision-making process. It remains primarily the responsibility of the Supervisory Board as a body and the members of the Supervisory Board as individuals to obtain information and form an independent judgement.

The allocation of tasks within the Supervisory Board, as well as the way of working of the Board, are established in its 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 TKH. TKH also has a set of rules governing possession of and transactions in securities by

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.

### DEPOSITORY RECEIPTS OF SHARES

Stichting Administratiekantoor TKH Group ('Stichting Administratiekantoor') holds ordinary shares in the company. In exchange for these shares Stichting Administratiekantoor issues depositary receipts of those shares. The voting rights to the shares are vested in Stichting Administratiekantoor. If requested to do so by the holders of depositary receipts, Stichting Administratiekantoor gives 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 Dutch Civil Code) to grant the proxy and 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.

TKH 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 TKH's capital structure as per provision 4.2.6 of the Code and in the sense of the Decree regarding article 10 of the 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) executive directors, (former) non-executive directors, employees or permanent advisers of the company.

A member of the Stichting Administratiekantoor Executive Committee may

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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.

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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 Dutch Civil Code) to grant the proxy and 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.

TKH 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 TKH's capital structure as per provision 4.2.6 of the Code and in the sense of the Decree regarding article 10 of the Takeover Directive, is included in the Section 'The TKH share' and in the notes to the company financial statements.

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The Executive Committee of Stichting Administratiekantoor consists entirely of independent members. The Executive Committee does not include any (former) executive directors, (former) non-executive directors, employees or permanent advisers of the company.

A member of the Stichting Administratiekantoor Executive Committee may



be appointed for two periods of four years and thereafter for a period of two years, followed by one more period of two years. Reappointment after eight years is substantiated in the Report of the Stichting Administratiekantoor Executive Committee. The Stichting thereby follows the provisions of the Code.

### Exercising voting rights

TKH's articles of association allow the Executive Board to decide that shareholders may exercise their voting rights before the General Meeting of Shareholders by electronic means. TKH offers shareholders and depositary receipt holders the possibility of issuing a proxy to vote in accordance with the e-voting system prior to the 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 companies and all its stakeholders are protected as well as possible, and does not focus primarily on the interests of the holders of depositary receipts when exercising its voting rights as defined in best-practice provision 4.4.5 of the Code. The Stichting thus exercises its voting right in line with legal provision 2:118a, as described in more detail above under '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 '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 (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 2019 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 on 'Corporate Governance'.

- The information concerning the main features of the internal risk management and control system 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 on 'Risk Management'.
- Information regarding the functioning of the General Meeting and the main authorities and rights of the shareholders and holders of depositary receipts in shares as required by article 3a sub b of the Decree, can be found in the sections on '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 'Developments & Results'.
- The diversity policy regarding the composition of the Executive Board and the Supervisory Board, including the policy objectives, as well as the way in which the policy has been executed and the results of this over the last financial year (Art. 3a sub d of the Decree), as well as the measures to achieve the envisaged situation and over which term, are described in the sections 'Corporate Governance', 'Developments & Results' 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 on 'Corporate Governance' and 'The TKH Share' and in the notes to the consolidated and company financial statements.

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

# 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) 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 and compliance risks for each operating company.
- The TKH Manual includes regulations and guidelines for decision-making procedures and authorities for the strategic management of our operating companies. 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 staff members 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, among other things, the results, market and business developments, as well as (potential) risks identified for each operating company are discussed by the Executive Board and local management or the cluster management.

The risk management policy is tailored to the size and decentralized structure of TKH. The components of the TKH risk management policy are assessed by the Internal Audit department, with the activities focusing on the continued operations. Each operating company's main strategic, operational, financial, reporting and compliance risks are identified and analyzed and their potential impact on the operating company is determined. The results of these analyses are discussed with the Executive Board. At least twice a year, the most important findings of this review are discussed by the Director Internal Audit 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 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. 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 culture. The pursuit of a balanced risk profile is embedded in the culture by means of short lines of communication and is supported by a tight monitoring of agreed objectives through a comprehensive KPI dashboard.

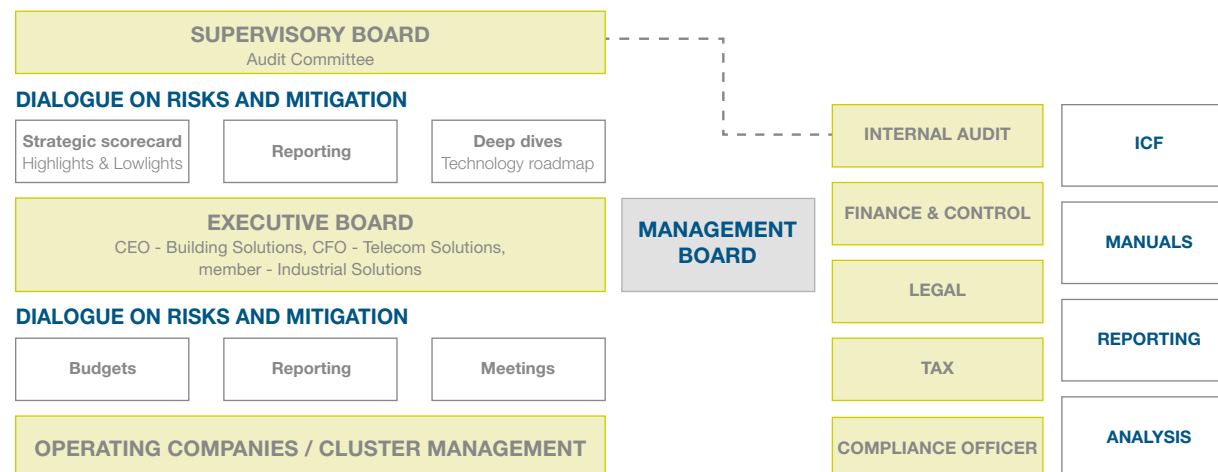
Staff are expected to be aware of the core values of our actions and our risk profile and to feel responsible for the (potential) risks they take. They are also expected to adhere to TKH's culture principles and to act in accordance with the TKH Code of Conduct. This Code is fundamental to everything 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. There is a procedure for reporting misconduct to enable people to report any suspicion of unlawful conduct. Reports are reviewed and investigated by the local counsellor and/or the central Compliance Officer. Where deemed necessary, disciplinary and mitigating measures are taken.

## DEVELOPMENTS IN 2019

In the year under review, the internal risk management system was evaluated and a number of improvements were made. The activities carried out by Internal Audit did not result in any material findings at group level with regard to the administrative organization and internal control. If a shortcoming in the administrative organization and internal control has been observed, areas for improvement are identified.

Continuous monitoring takes place in order to adjust the analyses to changing internal and external conditions if necessary. In 2019, the still missing (non-primary) processes for the most important operating companies were included in the Internal Control Framework. This has become part of the periodic financial reporting. In 2020, the processes of the other operating companies that are still missing will be integrated into the Internal Control Framework.

## RISK MANAGEMENT STRUCTURE



For operating companies whose size, technology and risks, such as privacy and reputation, are important in the context of implementing the TKH strategy, the risks with regard to IT & Security 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. By for example reacting in a timely manner, these incidents have not resulted in data leaks or significant and permanent damage, but they do confirm that increased attention remains necessary. During the reporting year, further attention was also paid to the European privacy legislation. Risk analyses carried out show that awareness can be further raised at some operating companies.

TKH is active worldwide, where it is important that all entities report on the same financial principles and provide the same high quality of reporting, in line with the TKH Reporting Manual. During the year under review, thorough attention was paid to the implementation of the new reporting standard in the field of leases (IFRS 16) and monitoring of recently implemented reporting standards in the field of revenue recognition (IFRS 15) and financial instruments (IFRS 9).

In order to ensure sufficient audit of the Internal Control Framework and other risk management components, it has been decided to further expand and strengthen the Internal Audit function. This also provides a better guarantee of independence within the activities of Internal Audit. The recruitment procedure has already started. For specific themes, external specialists are used on a project basis. For further professionalization of the Internal Audit function, the IIA standards (of the Institute of Internal Auditors in the Netherlands) are consulted.

### RISK PROFILE AND RISK APPETITE

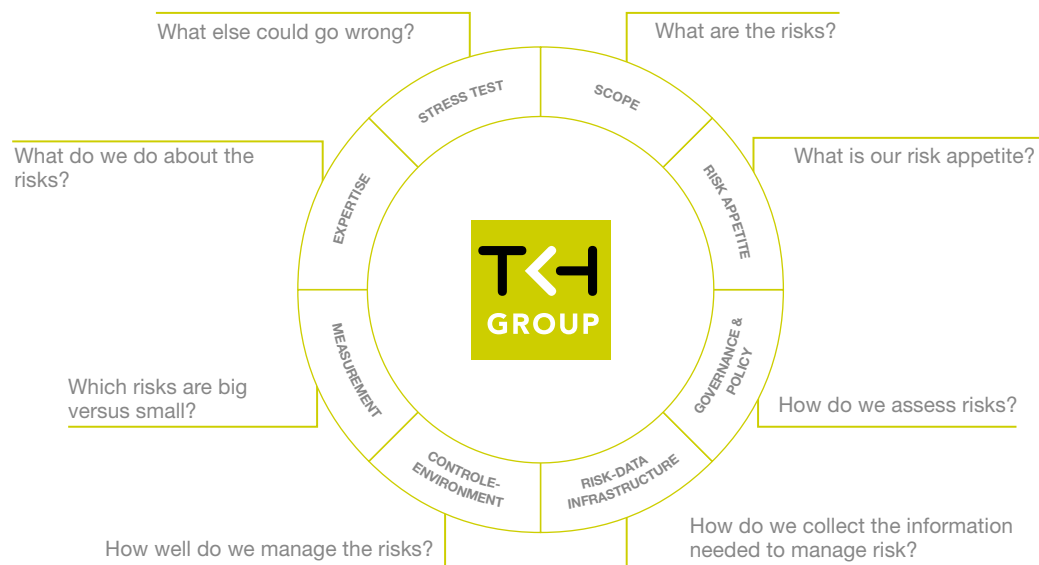
The most important risks have been identified and clustered into four categories: strategic risks, operational risks, financial and reporting risks and compliance risks. For each risk we then appraise the possible impact on the organization and the probability that this risk will occur. The impact includes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

### RISK OVERVIEW

As part of the strategy process, four priority areas have been identified: Innovative, Value Creation, Talent Empowerment and Being Responsible. Based on these pillars, we have determined our strategic direction and have defined specific objectives in order to flesh out the strategic process. The TKH value creation process is dynamic and ongoing. It seeks to use our business processes to respond to our stakeholders' needs and requirements and to identify opportunities and risks at an early stage which are driven by economic, geopolitical, ecological, sustainable, social and technological trends. Subjects that are material for both TKH and our stakeholders influence the TKH business operations. The risk connectivity matrix on the next page shows the most important risks for TKH and the strategic pillar from which these risks are addressed. In addition, a link has been made with the material themes for TKH and for our stakeholders as included in the materiality matrix ('Stakeholders' section).

## RISK CULTURE





## RISK CONNECTIVITY MATRIX

RISK AREA	RISK	RISK DESCRIPTION	STRATEGIC PILLAR	MATERIAL THEMES	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.	VALUE CREATION	5 Financial targets 6 Dividend policy 7 Share price performance	▲	●
	2. TECHNOLOGY & INNOVATION	Threat to TKH long-term value creation due to insufficient technology development and innovation.	INNOVATIVE	1 Innovation and technologies 4 Portfolio management	=	●
	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.	VALUE CREATION	4 Portfolio management	=	●
OPERATIONAL	4. PROJECT MANAGEMENT	Risk of projects not being delivered according to specification, agreements and planned margins.	VALUE CREATION		▼	●
	5. IT & SECURITY	Risk of breach of data availability, confidentiality and integrity (including IP).	INNOVATIVE	2 IT Security & Privacy	▲	●
	6. STAFF	Shortage of well-qualified staff and inability to retain qualified staff. Health and safety incidents can cause risks for employees and lead to business stagnation.	TALENT EMPOWERMENT	9 Good employment practices 10 Health & safety 11 Education & training courses 12 Diversity in the workforce 13 Sustainable employability	▲	●
FINANCIAL AND REPORTING	7. CURRENCIES	Volatility of currencies which puts pressure on profit margins.	VALUE CREATION		▲	●
	8. RAW MATERIALS	Limited availability of energy and raw materials, volatility of raw material prices which puts pressure on profit margins.	VALUE CREATION	16 CO <sub>2</sub> reduction 17 Waste reduction	=	●
	9. REPORTING	Risk that TKH's reporting contains material errors.	VALUE CREATION		=	●
COMPLIANCE	10. LEGAL & REGULATORY	Damage (including reputation) due to violation of legislation and regulations including export and sanctions regulations, unfair competition, fraud, corruption and bribery.	BEING RESPONSIBLE	14 Integrity	=	●
	11. TAX	Damage (including reputation) due to violation of tax legislation and regulations.	VALUE CREATION	8 Responsible tax policy	=	●

▲ increased    = equal    ▼ decreased    ● avoiding    ● 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.
- Roll-out of the 'Simplify & Accelerate' program.
- 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 2020

- Continuous attention to risk analysis during the execution of the strategy and strategy transformation program.

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 attention on innovation and the (execution of the) R&D roadmap.
- Approximately 4% of turnover is spent on R&D.
- Focus on vertical growth markets.
- Integration of operating companies in order to focus the deployment of R&D capacity.

#### PLANNED ACTIONS IN 2020

- 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 R&D roadmap and further integration of technologies.
- Further rollout of the 'Simplify & Accelerate' program.

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 2020

- Continuous focus on portfolio management, taking into account the correct alignment with the TKH strategy.
- Rollout of the 'Simplify & Accelerate' program.

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 staff. Training and education of staff.
- Guidelines and procedures for approving projects with an above-average risk, project management and adequate project administration. High-risk projects are excluded.
- 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 2020

- Direct involvement in important projects.
- Experiences are constantly evaluated and included in the risk model, which can lead to a tightening of acceptance criteria.

RISK APPETITE ●

RISK TREND ▼

## IT &amp; SECURITY

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

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).
- 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 cybercrime 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 operating companies discuss important IT developments, trends and risks.
- The internal and external security environment is tested by a specialized external agency.
- Internal guidelines on privacy handling.
- Increasing awareness of the need for information security through continuous training and the frequent distribution of newsletters on relevant (cyber) topics (Security Awareness Program).
- The Internal Audit department oversees the implementation of privacy guidelines.
- For operating companies 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 2020

- Performance of IT audits at operating companies. Attention will also be paid to following up the recommendations made.
- Workshops and knowledge meetings will be organized on current IT themes, partly to raise internal awareness.

RISK APPETITE ●

RISK TREND ▲

## STAFF

Scarcity of well qualified staff and inability to retain qualified staff can impact the (progress of the) execution of TKH's strategy. Health and safety incidents can cause risks for employees and lead to business stagnation.

## SPECIFIC RISK MITIGATION MEASURES

- Performance/Talent management program per operating company.
- Management Development Program.
- Regular employee satisfaction surveys.
- Use good reputation as an attractive employer to recruit talented employees.
- Cooperation programs between operating companies and with training institutes.
- Use 'Employer branding' to reach future talent and arouse their interest.
- Increased attention to safety by tightening safety standards and creating even better safety awareness.

## GEPLANDE ACTIES 2020

- Various specific programs were set up to draw attention to diversity within the organization. There are programs for middle and senior management in order to improve the balance in gender diversity in terms of positions but also in consultation structures. In our appointments policy, we are committed to providing a suitable working environment for people who are distanced from the labour market.
- In order to recruit new talent, TKH will intensify the contacts with business schools and universities.
- When recruiting external candidates, we increasingly use employer branding as well as referral recruitment, where employees are asked to nominate new colleagues.
- We will continue to pay special attention to vitality and health and will roll out the vitality program to other operating companies in 2020.
- Increase safety awareness.

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 is partly hedged for the most important currencies 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 2020

- Constant attention is paid to exchange rate developments and mitigating measures are being continued.

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 operating company are monitored for the economic stock positions, stock prices, rate of turnover and expected relationship between copper prices and selling prices (price elasticity).
- Price developments are incorporated as far as possible in the selling price of products and/or services or where possible temporarily 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 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 2020

- Constant attention is paid to raw material price developments and mitigating measures are being continued.

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) staff.
- The performance of regular impairment testing, including the annual strategic plans.
- Deployment of 'Business Intelligence' tools to gain insight into risks at an early stage.
- Representation letter and In-Control Statement for each operating company.

#### PLANNED ACTIONS IN 2020

- The TKH Manual will be completely updated in 2020.
- Further increase of internal awareness with respect to TKH guidelines by providing training materials and tools to operating companies.
- A controller meeting will once again be organized in 2020 to discuss important and current issues.

RISK APPETITE ●

RISK TREND ==



## COMPLIANCE

## LEGAL &amp; REGULATORY

Non-compliance due to violation of legislation and regulations and internal guidelines can result in damage (including to reputation). This relates to, for example:

- Unfair competition, violation of export regulations and sanction programs that can lead to significant penalties and reputational damage.
- Global business and use of agents who may expose TKH to local bribery and corruption risks.
- Undesirable or unethical conduct of employees that leads to fraud-related matters.
- Violation of human rights and child labour rules.

## SPECIFIC RISK MITIGATION MEASURES

- Internal guidelines relate to, for example, internal control measures, responsibilities and authorization requirements of the management.
- Internal guidelines regarding compliance with sanction and export 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 operating company, 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, all 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 also performs internal audits on non-financial information.

## PLANNED ACTIONS IN 2020

- In 2020, the Internal Audit department will conduct more audits of non-financial information, including the realization of corporate social responsibility objectives.
- Further increase of internal awareness with respect to TKH guidelines by providing training materials to operating companies. In 2020, the controller meeting will again focus on export and sanctions regulations, fraud, corruption and bribery.

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 operating companies in accordance 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 agreed with the Dutch Tax and Customs Administration in this context.
- Make use of external (tax) advisors for specialized subjects.
- Rollout 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.
- During controller meetings, theory and case studies are used to address both professional tax issues as well as other tax issues, such as tax dilemmas.

## PLANNED ACTIONS IN 2020

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

RISK APPETITE ●

RISK TREND ==

## OTHER RISKS

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

### STRATEGIC

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

### OPERATIONAL

- Disasters within production facilities, for example as a result of climate change.
- 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 22, 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 € 79.0 million as at 31 December 2019, 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 are of the opinion that our available funds at the end of 2019 will be sufficient to finance our activities, investments and existing contractual obligations for at least the next twelve months.

## QUANTIFICATION OF RISKS AND SENSITIVITY ANALYSIS

	CHANGE	IMPACT	ON	ASSUMPTIONS	RELATES TO RISK
Turnover	1%	€ 7.2 million	EBITA	No adjustment of operating costs.	1, 2, 3, 7, 8
Raw material price copper	10%	€ 0.8 million	EBITA	No derivatives to hedge price risks.	8
Gross margin	1%	€ 14.9 million	EBITA	No adjustment of operating costs.	1, 2, 3, 7, 8
Operating costs	1%	€ 6.2 million	EBITA	No adjustment of turnover / gross margin.	operational and financial risks
Currencies - financial instruments	10%	€ 4.7 million	Result before tax	All other variables remain constant.	7
Currencies - financial instruments	10%	€ 26.0 million	Group equity	All other variables remain constant.	7
Interest	1%	€ 3.8 million	Result before tax	Net bank debt including deduction of interest rate swaps held at variable interest rates.	financial risks
Interest - financial instruments	1%	€ 0.8 million	Group 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.

During the year under review, Internal Audit assessed the administrative organization and internal control of the group companies. Attention was paid to the most important risks and current themes. Improvements were identified where non-material shortcomings in the administrative organization and internal control were observed. The Director Internal Audit discussed the results of his activities with the Executive Board and reported the main findings to the Audit Committee. The activities performed did not result in any material findings at group level with regard to the administrative organization and internal control. Based on the financial results for the 2019 reporting year and the expectations for the 2020 reporting year, the Executive Board has assessed the company's assumption of going concern. 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 the Disclosure of Non-Financial Information can be found in the management report in the sections on 'Development & Results', 'Remuneration Report', 'Risk Management', 'Corporate Governance at TKH' 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 any shortcomings in the operation of the internal risk management and control systems;
- ii. the above-mentioned systems provide a reasonable assurance that the financial reporting does not contain any errors of material importance;
- iii. the current situation justifies financial reporting on a going concern basis; and
- iv. the report contains the material risks and uncertainties that are relevant to the expectation of the company's continuity for a period of twelve months after the 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 2019, the state of affairs at TKH and its affiliated companies during 2019, 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 2020

J.M.A. van der Lof MBA, *Chief Executive Officer*

E.D.H. de Lange MBA, *Chief Financial Officer*

H.J. Voortman MSc, *member of the Executive Board*

# 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'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 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 2019 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 42,691,949 and 4,000 are priority shares with a nominal value of € 1.00. At the end of 2019 the company



held 826,898 (depository 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 paid in 2019 were issued to the holders of (depository receipts of) shares in cash.

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

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

	2019	2018
Annual turnover of shares	25,936,902	20,214,598
Highest price	€ 55.05	€ 60.15
Lowest price	€ 38.82	€ 38.36
Closing price	€ 49.90	€ 40.70
Net earnings per share	€ 2.72	€ 2.58
Dividend	€ 1.50	€ 1.40
Price-earnings ratio as at the end of the financial year	18.4	15.8
Dividend yield on closing price	3.0%	3.4%
Market capitalization at end of financial year (in € millions)	2,136	1,742

### 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' the following interests of 3% or more in TKH are disclosed. The table on the right is based on disclosures until 4 March 2020.

Mandatory Disclosing Party	Interest	Date of Last Disclosure
Allianz Global Investors GmbH	10.01%	09-2017
ASR Nederland NV	5.11%	10-2008
Kempen Oranje Participaties NV	3.77%	04-2011
Lucerne Capital Management, LLC	5.62%	08-2019
Navitas BV	5.75%	11-2006
Teslin Participaties Coöperatief U.A.	5.01%	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 6 May 2019 this power was extended until 6 November 2020. The directive applies 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.

## FINANCIAL CALENDER

**6 MAY 2020**

Market update

**7 MAY 2020**

General Meeting of Shareholders

**11 MAY 2020**

Ex-dividend

**12 MAY 2020**

Record date

**15 MAY 2020**

Dividend payable

**11 AUGUST 2020**

Publication interim results 2020

**17 NOVEMBER 2020**

Market update

During the General Meeting held on 6 May 2019 the power for the company to acquire shares in its own capital was conferred on the executive board for a period of 18 months as of that date. Amongst other things, this authorization may be utilized for the purposes of purchasing shares for share and option schemes.

## EMPLOYEE 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 operating companies. 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. A Capital Markets Day was organized on 12 June 2019 in which the 'Simplify & Accelerate' strategy program was explained.

An update was also given on developments within some vertical growth markets. All publications, presentations, meetings, other announcements (non-financial or otherwise), appointments and explanations occur subject to the applicable regulations and guidelines issued by Euronext Amsterdam and the Dutch 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 other financial reporting, we strive for transparent reporting.

## INVESTOR RELATIONS

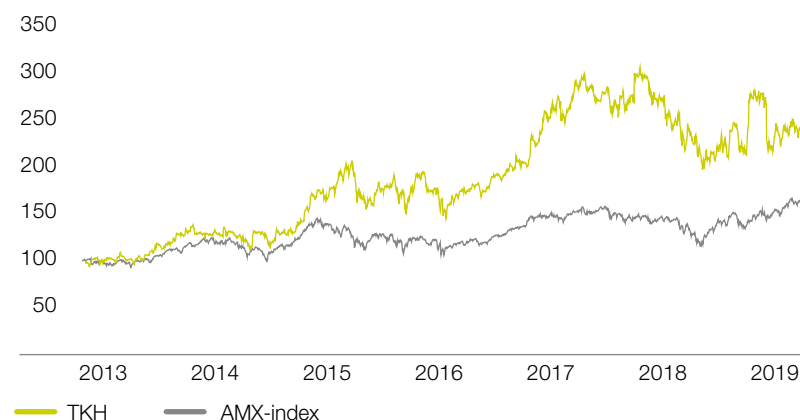
J.M.A. van der Lof MBA, *Chairman of the Executive Board*

E.S. Velderman MBA, *Director Corporate Development*

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

## PRICE INDEX TKH / AMX

index



## SECTION

# THE POWER OF TKH

In order to be successful, and to remain so, continuous innovation is a must. TKH has been working hard on its four defined core technologies over the past few years, with a clear focus on specific applications and uses. The driving force behind this is the combination of the core technologies to reach innovative solutions. This helps us to tap into new markets and make our contribution to efficiency, security or sustainability for our customers.

The decisive factors for our product strategy and development are technological applications such as Interactive Voice Response (IVR), Machine Vision, Artificial Intelligence (AI) and Machine and/or Deep Learning. For that reason we are continuously investing, so that we can retain the technological edge we have built up, and then go the extra mile. This means that the time-to-market reduces and it also allows us to take full advantage of opportunities.

In this section, we present examples of the distinctive strength of our technologies and comprehensive solutions in the market. They provide a return for our customers due to such benefits as higher efficiency of installation, reduction of material costs, improvement of cost-efficiency, higher occupancy, higher quality of the products or greater safety levels. Moreover, they diminish CO<sub>2</sub> emissions or reduce waste. These are unique features that give us, as a technology company, the edge in the market.

**THAT IS THE POWER OF TKH!**





# FIBRE OPTIC NETWORK THAT IS READY FOR THE FUTURE

**Fibre optic networks are expected to provide high reliability and lower response times. For this purpose, TKH has its ACE solution for modern fibre optic networks which, in addition to optical fibre cables, also includes connectors, pipes, sleeves, fibre management systems, security and robotic systems and other accessories.**

To allow scaling up of the required capacity in certain situations, optical fibre connections must also be able to be controlled and switched. TKH uses ACE cobots for automation: robots that can work together with humans. With the smart SAODF technology (semi-automated optical distribution frame), robots in PoPs (Points of Presence) are used to remotely control optical fibre connections, without the intervention of the mechanic. With ACE, the lack of electrical signals in the passive parts of the network is overcome by using optical fibres for optimal control of all equipment. Making Internet of Things connections optical is unique in the market and paves the way to have fibre optic networks for all applications that are possible with a 5G network.



## REMOTELY MANAGED



## TELECOM SOLUTIONS

# FIBRE OPTIC NETWORKS ON A LARGE SCALE IN DUTCH RURAL AREAS

"Offer access to fast internet to as many people as possible in the Netherlands", that is the ambition of 'Glasvezel buitenaf', an initiative of DELTA Fiber Netherlands. Not only in the city or a specific region, but also in rural areas.

In order to realize this ambition, 'Glasvezel buitenaf' is rolling-out fibre optic networks on a large scale in the Dutch rural areas. Quite a challenge, as these countryside areas are rich in trees, highways and railways. Also, the distances in these regions are about 30 times

longer compared to urbanized areas. This means a lot of digging. 'Glasvezel buitenaf' started in 2015 and now more than 100,000 addresses in rural areas have access to fast internet via fibre optics. An impressive number spread across the Netherlands.

An essential part of a successful project roll-out is the timely delivery of materials to the right location. Replenishing inventories based on engineering and planning information (guaranteeing an always available inventory

level) will reduce operational costs thanks to lower inventory levels, fewer communication lines and less transport between warehouse and the project location.

For the realization of projects, 'Glasvezel buitenaf' has opted for TKH's ACE concept. The ability to innovate and work together on dynamic business cases, TKH's capacity to secure the entire chain within fibre optic networks and the long-term strategy, are key factors to cooperate with TKH.



## FIBERIZED HOMES IN RURAL AREAS (NL)



100,000

### REDUCTION OPEX



### UPLOAD = DOWNLOAD FASTER COMPARED TO TRADITIONAL NETWORKS



20x

### ENERGY REDUCTION



### READY FOR THE FUTURE



5G

AI, 5G

# SMART TECHNOLOGY AND SOFTWARE INCREASINGLY IMPORTANT IN PARKING SOLUTIONS

In recent years, TKH has given smart technology and software an increasingly important role in its parking solutions. This makes it easy for people to find their parked car and be quickly guided to a vacant space by means of coloured LED lighting. After parking, the relevant rate is automatically applied.

The software ensures that the cameras record video images when a movement is detected in or around the parking space. Intelligence at the parking-space level results in a wealth of interactive and in-depth reporting. Via the dashboard, the car park managers can analyze the parking facility's performance and take appropriate action, but also make on-the-fly adjustments to increase efficiency and profitability



## BUILDING SOLUTIONS

# OPTIMAL PARKING MANAGEMENT FOR THE UNIVERSITY OF TEXAS IN DALLAS

Due to the substantial growth of the Dallas (USA) university (UT) in the last 10 years, parking capacity has accordingly doubled from 7,000 to 14,000 spaces. During the planning phase for three new parking garages, involving an expansion to provide more than 2,700 spaces, the university chose to explore technological options to create an easier, more pleasant and more efficient parking experience, for students, teachers, other staff and guests. This led UT Dallas to choose TKH's patented M4 camera-based

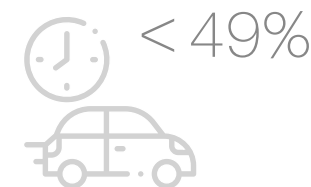
smart-sensor parking guidance system because of its technology, the global track record of successful installations, the service and support options and continued focus on innovation, among other aspects.

The colour-coded M4 sensor LEDs indicate clearly and quickly the parking spaces that are occupied and therefore the vacant spaces as well. The use of license plate recognition technology and smart sensors based on camera technology in the parking guidance

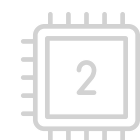
system ensures optimum capacity utilization. The ability to collect data, images and video while analyzing and reporting key statistics and trends, provides UT Dallas with unprecedented insights to allow the university to maximize parking-space utilization. UT Dallas is now using the system to create a more streamlined parking experience, leading to reduced search times for available parking places. As a result, the M4 parking system has also significantly reduced total CO<sub>2</sub> emissions on campus.



## REDUCTION SEARCH TIME



## DUAL CORE PROCESSOR



800 MHZ

## CAMERA



5.0 MEGAPIXEL

## VIDEO STREAMING



2,500 SIMULTANEOUS VIDEO STREAMS

CO<sub>2</sub> REDUCTION

15%



# STEREO LINE SCAN CAMERA, A RAPID AND PRECISE 3D VISION SYSTEM

**TKH has line scan camera technology available to create 3D colour images of complex surface structures. The stereo imaging-based system includes two lenses in a 3D camera to capture light from a left- and a right perspective image of the scene.**

The 3D information is computed by finding corresponding points in each row of the stereo image pair. The distance between corresponding points in both images is geometrically related to the distance between the camera and the measurement surface. This distance is called “disparity”. If computed for every image pixel, a height map can be created, on which objects closer to the camera show greater disparity than those further away.

In order to achieve absolute height measurements in high accuracy, the camera systems are individually calibrated during production. High performance computation is achieved by using high-end graphic cards.





## BUILDING SOLUTIONS

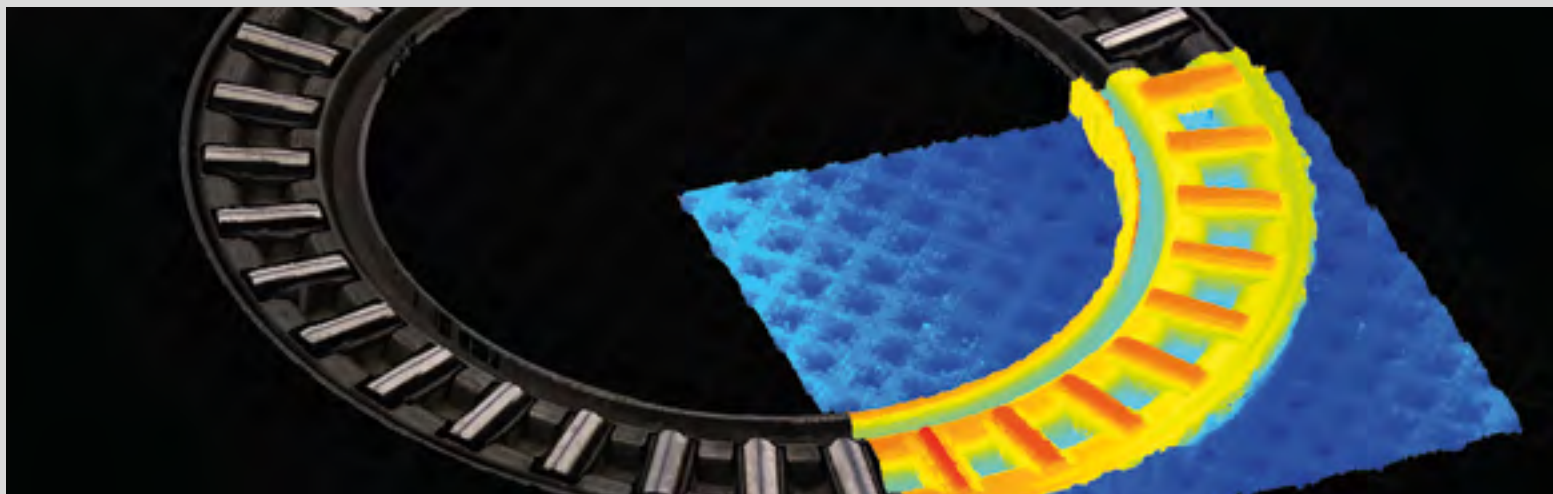
# 3D STEREO LINE SCAN VISION SYSTEM MONITORS BALL AND ROLLER BEARINGS

It is important to the service life and safe operation of ball and roller bearings that they are properly installed and have no imperfections. In order to detect manufacturing flaws properly and reliably, the best solution is automatic 100% inspection using 3D stereo line scan cameras immediately after manufacture.

Inspection is fully automatic, with no manual intervention, and is also contact-free in order to prevent damage. In an inspection system developed specially for this application, TKH's 3D stereo line scan cameras are used to inspect the wide variety of types of ball and

roller bearings. The cameras are characterized by their high flexibility and great speed. The 3D bearing inspection is designed to inspect hundreds of different types of ball and roller bearings, with the ability to detect minuscule defects, as little as 50 microns. The system inspects up to 60 parts per minute by using high-end graphics cards to calculate the 3D data from the stereo images at high speed. The inspection system has a database that maps out images and results so that they can be retrieved and exchanged with the PLC and a monitoring system. One challenge in particular is reliable detection of

pressing defects. Such defects can occur when the separate components of the bearing are pressed against each other. As such defects extend almost imperceptibly in each dimension and are also very smooth, with depths of just 100  $\mu\text{m}$ , detection demands very precise 3D data. The cameras must be able to examine both unfinished metal and partially polished surfaces of bearings for defects, just like the more matt parts. TKH 3D stereo line scan vision systems are a perfect match to this application, as they provide high-resolution RGB images and 3D data simultaneously.



## INSPECTION SPEED



60 PARTS/MIN.

## ACCURACY INSPECTION



100%

## HIGH RESOLUTION



15  $\mu\text{m}$

## DETECTS VERY SMALL DEFECTS



50  $\mu\text{m}$

## HEIGHT RESOLUTION

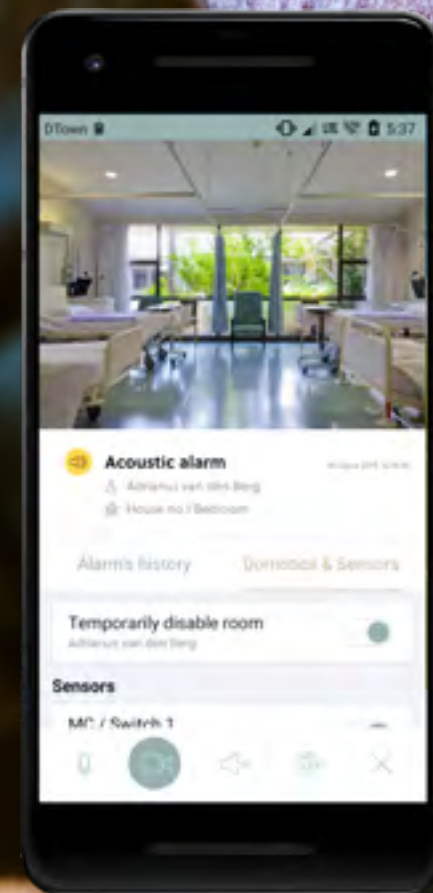


3  $\mu\text{m}$

# VIDEOME AT THE FOREFRONT OF THE NECESSARY TRANSFORMATION IN HEALTHCARE

**For the continually evolving technological support of the care process, TKH's vision is that care provision becomes 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 an increasingly sophisticated solution for both extramural and intramural. 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.





## BUILDING SOLUTIONS

# THE COFFEE MAKER CONFIRMS THAT THINGS ARE FINE

Remote care can be increasingly smart and its possibilities are continually increasing. Take, for example, 'acoustic' monitoring with smart sensors of the ups and downs of a person in need of care. With new technology, a distinction can be made on the basis of individual monitoring scenarios as to whether someone is okay or whether help is needed because smart software and sensors can better recognize emergency situations. The whole room can be monitored so that movements are registered and it's possible to know whether someone is moving around enough or has fallen, for example. TKH provides the at-home care automation system for observation, monitoring, video-phoning and social alarm. Having the client press an

alarm button every day to indicate that they are still doing fine, may be forgotten at some point – leading to an unnecessary alarm signal. Sensors can solve that problem. It's known that someone makes coffee or turns on the TV after they've got up. This can be detected by a sensor and a message can then be sent to the App on the telephone from a care provider who immediately receives an overview of the situation.

Digital technology can also make a difference to the operation of a healthcare facility. Analysis of data streams concerning the workflows allows for better or different planning. It provides knowledge about, for instance, who will ask for care at certain times,

and this knowledge can be used to plan more efficiently. Based on the client's needs, the care contact point can determine which employee can best be deployed, depending on the required expertise and availability. Central monitoring by the care contact point can be utilized to assess whether or not a home visit is necessary.

People are living longer at home and must receive the care they need there as well. Modifications in the home including personal alarms, lifestyle monitoring, camera surveillance, video communication and digital locks can be realized within 20 minutes with the TKH care solution.



## REDUCTION FALSE REPORTS DUE TO INDIVIDUAL MONITORING SCENARIOS



## INDIVIDUAL SUPPORT OF CUSTOMIZED CARE



## REDUCTION OF WORKLOAD FOR CARE PROVIDERS



## ACCURACY THROUGH SMART TECHNOLOGY



## MODIFICATION IN THE HOME TO A CARE HOME



# UNLIMITED OPPORTUNITIES WITH TKH SECURITY SOLUTIONS

**Extreme reliability and accuracy of video surveillance is absolutely essential to the security of critical infrastructure and buildings. With the security solutions it can offer, TKH has unlimited opportunities for this. Smart software solutions with a user-friendly interface that make live images and stored video data directly available to the end user.**

The powerful macro-engine allows the end user to define how the system should respond to specific events. A video recording can be made selectively on the basis of movement detection, or number plate, object or facial recognition. In the event of emergencies, footage of the incident in question can be reviewed on site, including the events leading up to the incident. This is done with special 'viewer' screens on site, so that both the operator and the emergency services have simultaneous and direct access to the footage, which facilitates rapid and efficient resolution.





## BUILDING SOLUTIONS

# TKH SECURITY MANAGEMENT SYSTEM FOR NEW AMSTERDAM COURT BUILDING

In mid-2017 a consortium started the construction of the largest court building in the Netherlands on the Parnassusweg in Amsterdam. The new court building comprises about 47,250 m<sup>2</sup> for offices, court rooms, interrogation rooms and custody area and has 10 stories. 1,000 courtroom staff and 200 chain partner employees will be working in the building every day. The new court building is due to open its doors at the end of 2020.

The new court will be equipped with the integrated security management system from

TKH. The project covers all the solutions in the TKH security and mission-critical communication portfolio, including various connectivity systems.

Based on the ambition to create a comprehensive security solution within the new Amsterdam court building, the consortium is also responsible for maintaining the security management system for a period of 30 years after completion. TKH has made arrangements about the maintenance period and will receive additional assignments based

on the 'Long-Term Maintenance Budget' that the consortium provides.

The contract for the biggest court building in the Netherlands is the result of a long and intensive tender process that started in February 2016. The most important reasons to opt for TKH are the seamless integration of our proprietary systems, our experience with comparable high-end security projects and the possibility to make agreements for maintenance and life-cycle management to a single technology partner.



## INTELLIGENCE



VCA

## FAILOVER PROTECTION



2 SERVERS PARCS

CROWD CONTROL  
DETECTION

&gt;10 PEOPLE

## SECURE ACCESS CONTROL



100%

INTEGRATED DATA  
PROCESSING

100%

# SMART 3D MACHINE VISION FOR INLINE CONSUMER ELECTRONICS INSPECTION

**Gocator® all-in-one 3D smart sensors are trusted worldwide for automated inline inspection. Gocator combines 3D scanning, measurement and control in a single device, with no external PCs or controllers required. This efficient design where 3D hardware and embedded software are tightly integrated delivers high performance functionality and makes it easy to configure and integrate - minimizing total system cost and maximizing product quality and throughput.**

All Gocators are factory pre-calibrated so users can immediately set up the sensor via a web browser and configure functions such as exposure, triggering logic, dimensional measurement tools, and communication protocols. Once setup is complete, simply disconnect the PC and Gocator runs standalone - delivering high-speed, micron-level measurements in real-time for a wide variety of critical inspection applications.



## BUILDING SOLUTIONS

# SCAN AND INSPECT GLUE BEADS WITH 3D VISION TECHNOLOGY

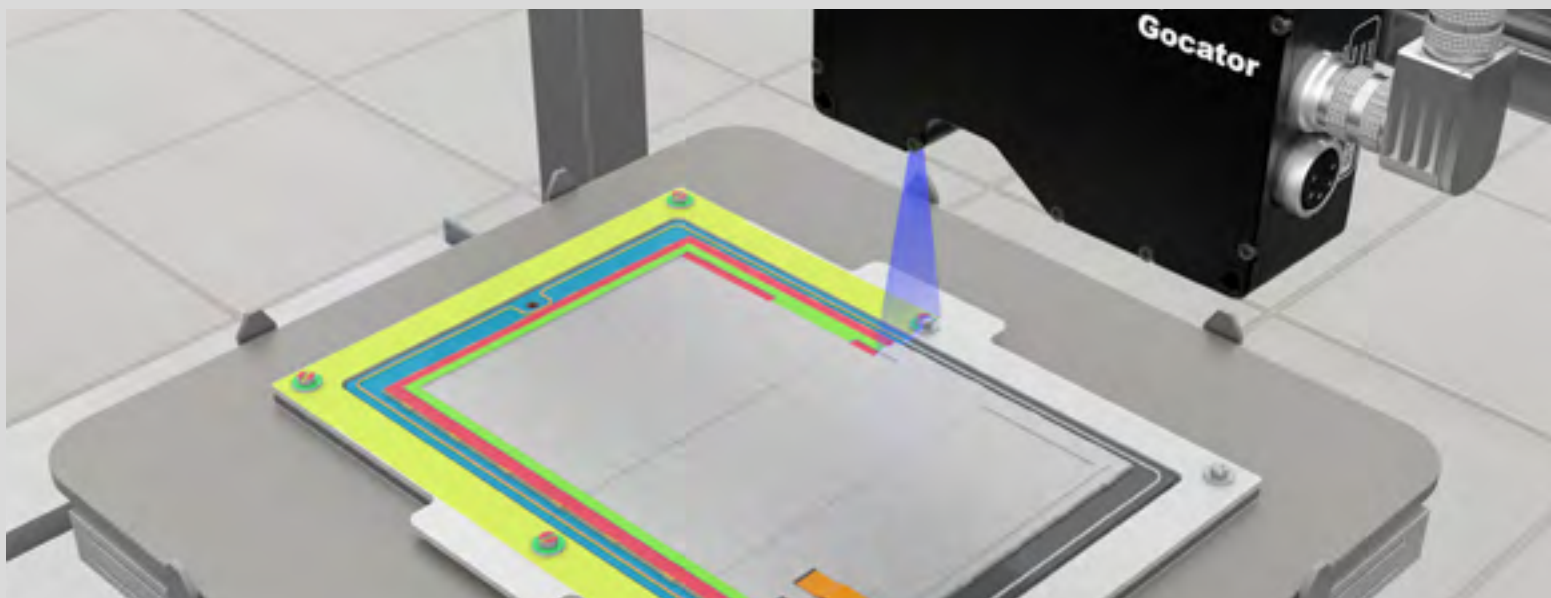
The use of adhesives is a common method employed in the assembly of automotive and consumer electronic components. Adhesive technology has evolved to the point where it can bond components faster and with higher quality results than welding or traditional fixation methods. In addition, adhesion is used to create a waterproof seal on a variety of component assemblies.

With Gocator®, TKH has designed an innovative, smart 3D vision solution for verifying the

adhesive process. Gocator delivers robust scanning and inspection of glue beads – often only 0.1-0.5 mm wide – at a high resolution, ensuring a quality seal as a result.

To deliver an automated glue dispensing system, a Gocator 3D laser profiler is mounted on a robot or nozzle to inspect the adhesive bead and ensure it is being applied along the correct path and within the correct volume tolerance. Sensor measurements are commu-

nicated to the dispensing system to adjust the flow of adhesive material and ensure uniform results in real-time. Gocator smart sensors generate the essential 3D data that allows the sensor to quickly and accurately determine the width, position, height and volume of the applied adhesive. And, because 3D is contrast invariant, Gocator is able to scan different types of adhesive materials - including translucent, transparent, glossy and opaque.



## HIGH SPEED



## HIGH RESOLUTION



## SMALL FORM FACTOR

INTEGRATED DATA  
PROCESSINGONBOARD SOFTWARE  
MEASUREMENT TOOLS

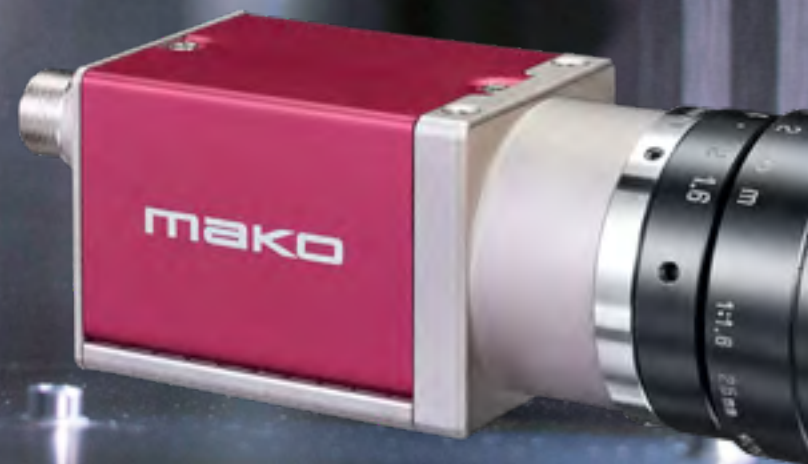


# 2D VISION TECHNOLOGY ENSURES INTELLIGENCE, EFFICIENCY AND QUALITY ASSURANCE

**TKH's industrial 2D-vision cameras are used for quality, product and process control and have been designed to meet the challenges of high or variable ambient temperatures, shocks and vibrations, and long-term use for maximum durability and reliability.**

Designed according to the highest quality standards, all TKH's industrial cameras undergo thorough quality control, because professionals need cameras that they can count on.

TKH's infrared cameras are used in the semi-conductor industry to inspect silicon, in the solar industry to detect defects in photovoltaic cells, and in the recycling industry to identify different types of plastic material.





## BUILDING SOLUTIONS

# TKH CAMERAS INSPECT MATERIALS FOR SAFETY ISSUES

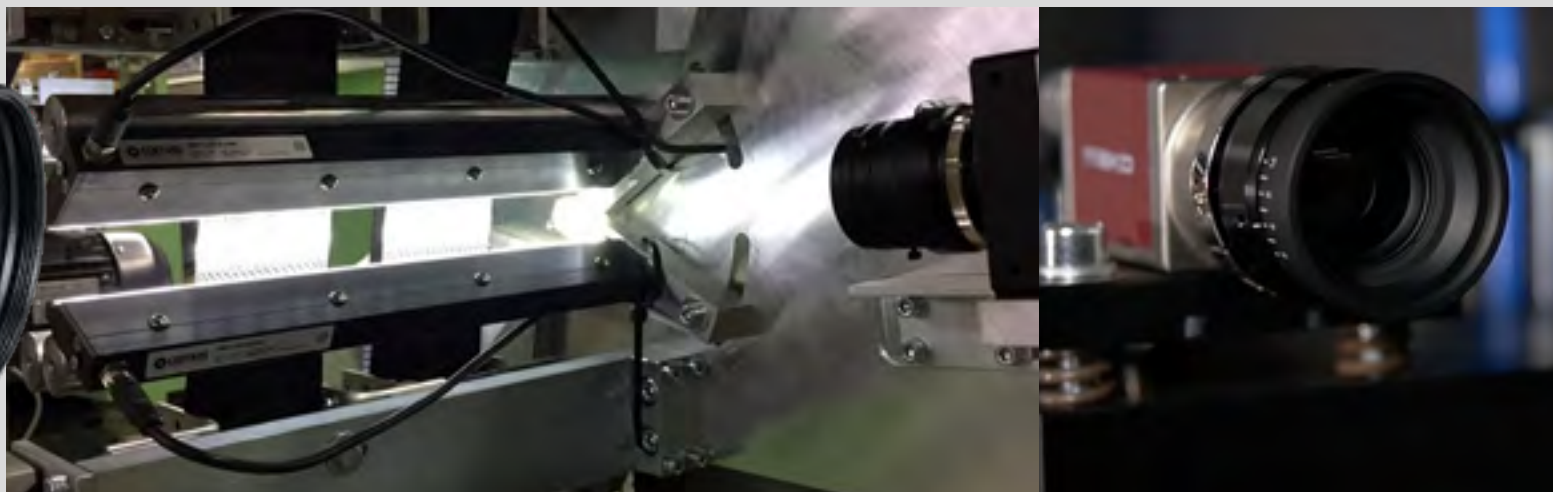
Vision software especially developed for the textile industry, to conduct in-line quality control of textiles and industrial materials drives vision inspection units for quality inspections of all sorts of materials, such as safety belts, elastic straps, hoses and industrial belts. These inspection units are equipped with TKH Mako cameras, which can capture high-quality images of the inspected materials. At full resolution, these cameras work at 41.2 frames per second. If the scan area is smaller, higher frame speeds are even possible. The software analyses the quality of the required specific features in real time.

By analyzing the resulting camera images using powerful image and data algorithms the system can register even the smallest defects, which are most difficult to find. Each type of defect is shown with a coloured spot. If required, all recorded defects are physically labelled and stored in a defect log file, together with all relevant data, such as time, position, production batch and defect profile.

The documentation relating to the detected defects guarantees full defect traceability and progressively helps to improve the production process. Kilometers of textile can be inspected

in one inspection process, at a speed of up to 200 meters per minute.

By using automated vision inspection, textile manufacturers can speed up their production process and improve the quality of their products. This means that operators are able to adjust protocols and settings without having to stop or delay the production process. Textile manufacturers can guarantee delivery of top-notch products, subject to 100% inspection in line with standards in the industry, which is particularly important in use for safety-critical applications.



## ONE-OFF INSPECTION



200 METER/MINUTE

## RESOLUTION SPEED



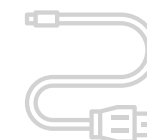
41.2 FRAMES/SEC

## HIGH RESOLUTION



2.35 MEGAPIXEL

## POWER OVER ETHERNET



1 CABLE

## RELIABLE INSPECTION



100%

# COMMUNICATION TECHNOLOGY GUARANTEES SOUND QUALITY, EVEN IN THE MOST EXTREME SITUATIONS

**Smart technology often makes the difference in mission critical communication. Not just by suppressing background noise to guarantee good sound quality even in the noisiest of environments using algorithms. Smart technology is also used to detect certain situations automatically.**

As an important application in this area, TKH's intercom systems can be equipped with functions that ensure a correct follow-up, even if a situation occurs where the person concerned is not able to make an emergency call themselves. Interactive Voice Response (IVR) with speech recognition can be used to answer questions and provide reports automatically, or to trigger an appropriate action immediately. The great common denominator of TKH's communication technologies is that they can be relied on at all times. They are designed and tested in such a way that they will continue to function even in the most extreme situations.





## BUILDING SOLUTIONS

# ULTRA-RELIABLE COMMUNICATION FOR TOLL ROADS

Wherever people and systems need to be able to communicate safely, 24 hours per day, 7 days a week, regardless of the site, security level, subject or emergency, there is more than a chance that TKH has supplied these mission critical communications systems. They are innovative, advanced systems for audio and video communication focused on security, efficiency and utmost reliability. And this applies no less to motorway operator Autostrade per l'Italia. The card payment booths on its more than 3,000 kilometres of toll-paying motorways are fitted with custom-built TKH communication terminals to enable fail-safe

round-the-clock communication between motorists and staff at the central control room. To be considered for this project, the terminals had to provide SIP capabilities and interface seamlessly with regular SIP switchboards. They also had to integrate with existing structures, materials and dimensions. Other required essentials for this extremely noisy environment included excellent bi-directional speech quality, high-performing background noise suppression, easy global deployment of automatic updates and a high tolerance for widely fluctuating temperatures. Thanks to the leading-edge intercom

technology, Autostrade per l'Italia and millions of motorists can rely on open communications lines and immediate response whenever they find themselves in need of assistance. Best of all, they enjoy the comfort of a natural speaking experience even against loud traffic noise, thanks to our noise and echo cancellation technologies, for simultaneous speaking and listening. On the maintenance side, automatic provisioning ensures that configurations and firmware updates are deployed instantly to all terminals throughout the network. Finally, the terminals' built-in self-monitoring adds fail-safety to functionality.



## RELIABLE COMMUNICATION



24/7

## TOLL INTERCOMS



1,080

## SIP SUPPORT



100%

## MITIGATING BACKGROUND NOISES



## AUTOMATIC MICROPHONE & SPEAKER MONITORING



# SUBSEA CABLE SYSTEMS: A FUNDAMENTAL ROLE IN THE ENERGY TRANSITION

**Cables have a fundamental role to play in the distribution of renewable energy, such as wind power. TKH has successfully positioned its connectivity technology for subsea cable systems within this growth market. Not least because of this well-considered, distinguishing cable concept that connects wind turbines in wind farms at sea with each other.**

An innovative cable concept that can be fully adapted to meet the challenges of array-wiring, with complete focus on risk management and saving installation time. The aluminium jacket ensures that the cables have a particularly good electro-magnetic shield and are 100% watertight. And, what's more, the cables are 100% recyclable. Our unique 'state-of-the-art' manufacturing facility can produce long lengths that are supplied in one piece, which results in greater installation flexibility for customers. In addition, there is automatic quality control during all production processes.



## BUILDING SOLUTIONS

# TKH PROVIDES SUBSEA CABLES FOR WINDPARK 'FRYSLÂN'

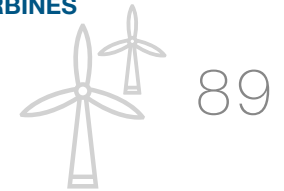
TKH was selected as the cable supplier for the Windpark 'Fryslân' project that is being built in the northern part of the IJsselmeer, to the south of the Afsluitdijk near Breezanddijk (the Netherlands). In total, this involves around 90 km of 33kV aluminium subsea cables.

Construction is already underway and, under the current planning schedule, the cables will be

installed in October 2020. The wind farm is arranged as a cluster of 89 wind turbines, each with an output of 4.3 MW. It is the largest wind farm in the world to be built on an inland body of water. With a total output of 382.7 MW, Windpark 'Fryslân' will generate enough power for around 500,000 households. The wind farm will be fully operational in 2021.



## NUMBER OF WIND TURBINES



## ESTIMATED PRODUCTION PER YEAR



±1,500 GWH

## TOTAL POWER



±382.7 MW

## TOTAL LENGTH SUBSEA CABLE



90 KM

## CO<sub>2</sub> SAVING PER YEAR



±800,000 TONS

# CEDD/AGL: REVOLUTIONARY LIGHTING SYSTEM FOR AIRFIELDS

**At airports and airfields, runway lighting must, of course, always work and not be out of service for too long when carrying out maintenance.**

In both cases, traditional lighting systems have quite a few drawbacks. The systems are complicated and susceptible to malfunction, with 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 distribution of energy and data, further enriched with TKH's technology and know-how in the field of asset & site management.



## BUILDING SOLUTIONS

# SIGNIFICANT INTEREST IN CEDD TECHNOLOGY FROM AIRPORTS

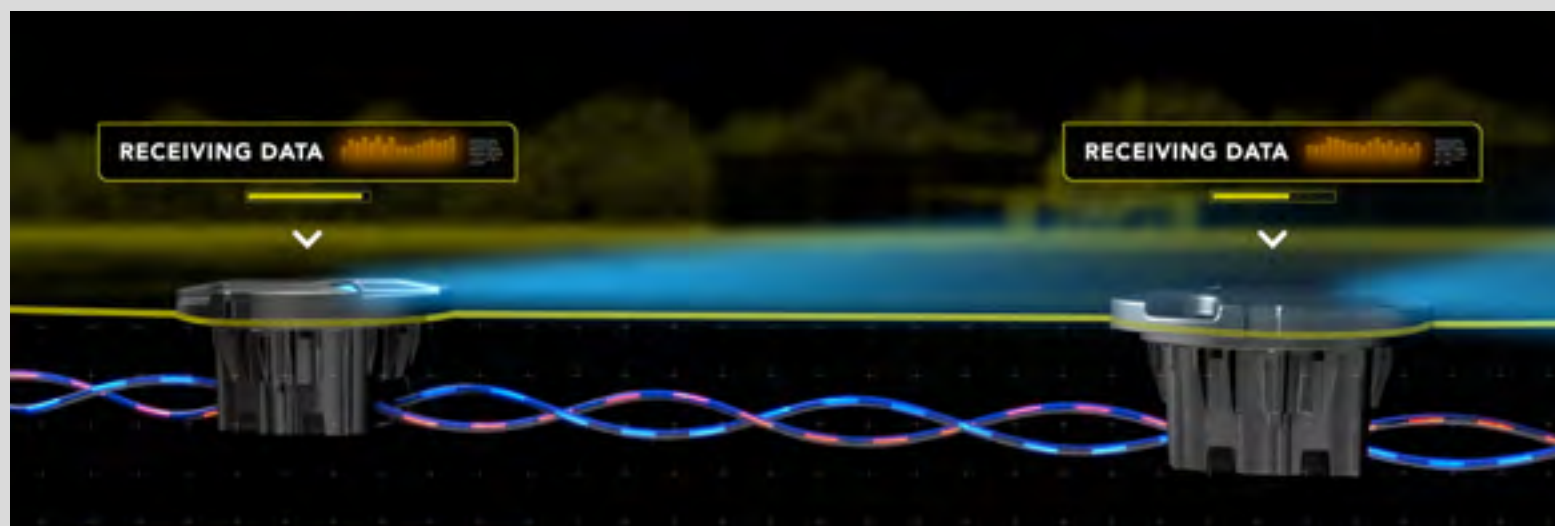
Since TKH first introduced CEDD (Contactless Energy & Data Distribution) technology in 2017, it has been installed at sites including Amsterdam Schiphol, Vancouver International and Geneva International. But there is also a lot of interest in CEDD technology from other large European airports. Airports look not just at the capital investment, but also at the operational aspects. For example, with CEDD it is possible to make the transition from remedial to preventative maintenance. The system is noticeably smarter. It includes the option of making a forecast of what may

happen, based on continuous monitoring of temperature, electricity and performance.

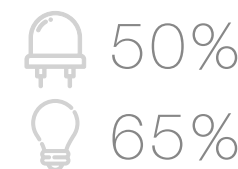
In contrast to traditional solutions CEDD needs no constant current controllers, transformers or primary and secondary cables to control the power supply. The system relies on a cable developed in-house especially for the CEDD solution that distributes power to individual lights using induction technology, and to send data upstream and downstream to the central base station. Switching from traditional halogen lights to LED lighting can reduce

energy consumption by around 50%. The use of CEDD technology can result in an additional reduction of 15%.

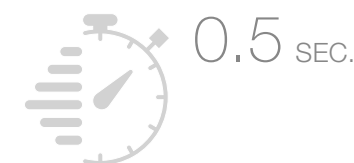
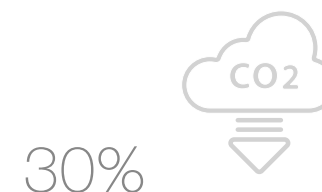
European airports are also looking for ways to comply with the 'follow the greens' regulation. This demands rapid operation and monitoring of taxiway lighting that is not always available in traditional systems. CEDD technology reaches update speeds of under 500 ms so it can respond rapidly to signals such as stop bars and taxiway lighting. The technology is catching on and is ready for the future.



## REDUCTION TAXI TIME

LESS ENERGY  
CONSUMPTION

## REDUCTION FUEL USAGE

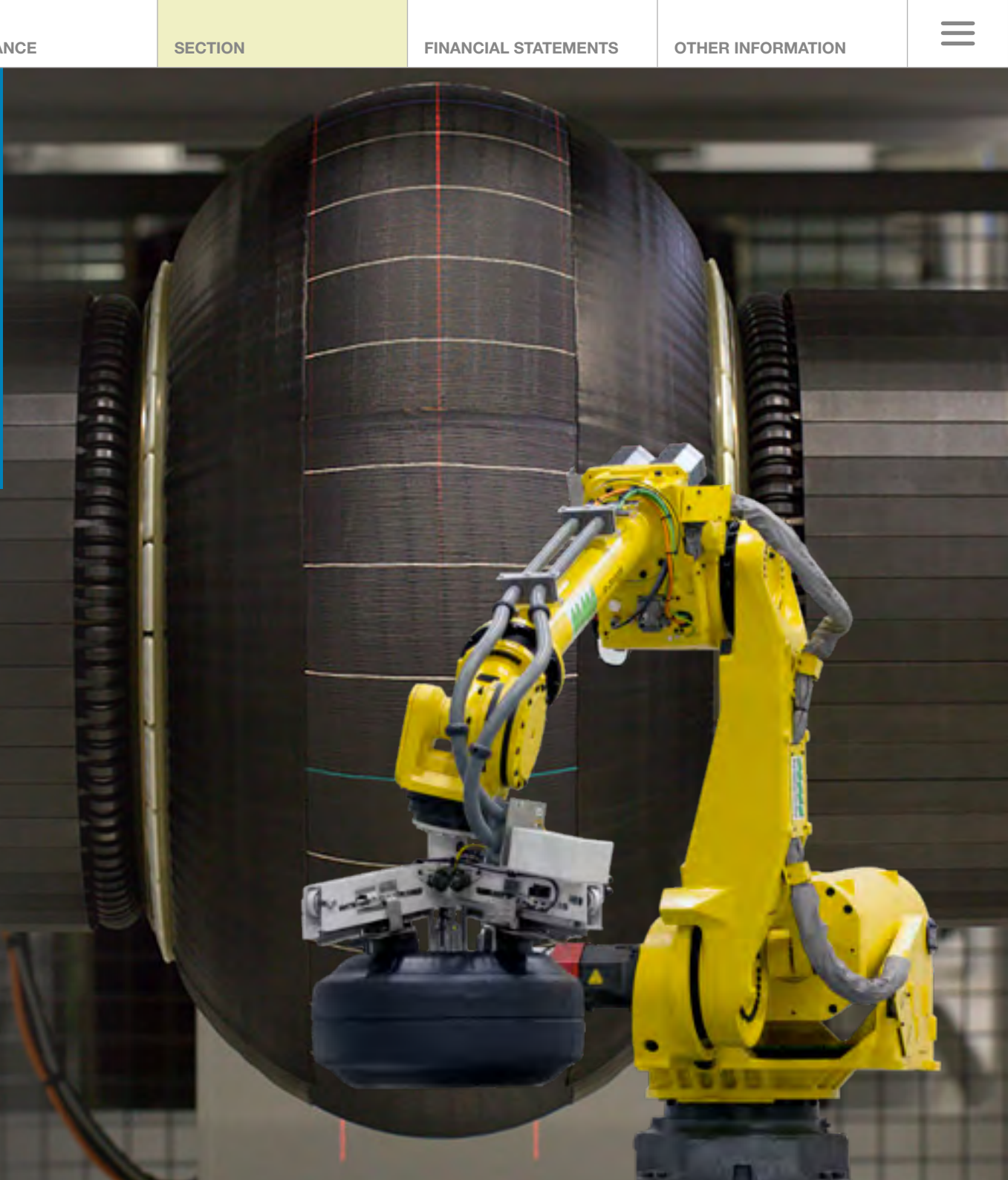
FEEDBACK STATUS  
LIGHTINGREDUCTION CO<sub>2</sub> EMISSION



# TECHNOLOGICAL EDGE IN TIRE- MANUFACTURING MACHINES THANKS TO SMART TECHNOLOGY

The status of successful market leader that TKH has acquired world-wide in the past few years, with its premium tire manufacturing systems technology is by no means something to be taken for granted. Our success is primarily the result of constant Research and Development, knowledge of market trends and continuing investment in technological advances. The use of vision technology and extensive robotization are decisive factors for the high technological standards that TKH applies to its tire manufacturing systems.

Over the past few years, TKH has been working intensively on the revolutionary development of a tire manufacturing platform that unites all aspects of a tire manufacturing machine equipped with the latest mechanics and technology. The experience of developing the MAXX tire manufacturing system and the success it has achieved have proved to be very important in this respect.





## INDUSTRIAL SOLUTIONS

# MAXX: A 'GAME-CHANGER' IN THE TIRE MANUFACTURING INDUSTRY

The introduction of the MAXX tire building machine 10 years ago was a game changer for the tire manufacturing industry right from the word go. The machine is made up of several modules that the tire manufacturing process needs in order to achieve maximum output, coupled with the guarantee of a high-quality output of tires. Set-up times, maintenance and the complexity of the machine are minimized, so it is possible for just a single person to operate more than one system with 'hands-off, eyes-off' technology. Visual inspection by 'human eyes' has been replaced by high-end vision technology. This not only speeds up the process of quality control; the operations in question can also be performed in a way that can be shown to be

more reliable. From its introduction, the MAXX has been subject to continuous innovation and performance improvement. Innovative modules, such as fully-automatic, optimum distribution of 'splices' (the overlap between the start and finish of a layer of rubber added when making the tire) resulting, not least, in a fall in waste material. It has been made possible to produce run-flat tires using 'hands-off/eyes-off' technology. And the MAXX can be configured to meet the wishes of customers. From the point at which the MAXX is installed, but also at a later stage when, for instance, the customer's mix of products changes. At present, the MAXX can produce not only car tires but also light truck tires, which very

heavy and are used on, for example, pick-up trucks. And special tires for electric vehicles which are much narrower and have large inch-denominated sizes can now be built using a fully-automated process on the MAXX.

An important development in the production process is the continuous generation of data so that the entire production process can be monitored. The data are linked to a bar code that is automatically applied to the tire. This makes it possible to track & trace the tire. The data generated is also used to analyze big data. The in-house developed Cortexx HMI system, is equipped with a universal data link that makes it simple to share data with customer systems.



## SIZE-RANGE



## PRODUCTION CAPACITY



## AC-DRIVES



## SERVO MOTORS



## NUMBER OF VISION CAMERAS



# HIGH-QUALITY VISION TECHNOLOGY IN THE TIRE MANUFACTURING INDUSTRY

**TKH has a strong reputation as an innovator in the tire manufacturing industry, and software is also an important part of its manufacturing systems. The use of vision technology in its systems which goes by the name of PIXXEL, is an example of this and fits in perfectly with the developments relating to 'Industry 4.0'.**

It is high-quality imaging using the latest sensor technology, and comprises an easy-to-use interface with more than 10 tire and rubber-related applications that can be selected from just one GUI (graphical user interface). This makes it possible to store and export imaging for later off-line analysis.



## INDUSTRIAL SOLUTIONS

# HIGHER PRODUCTIVITY IN TIRE MANUFACTURING SYSTEMS DUE TO VISION TECHNOLOGY

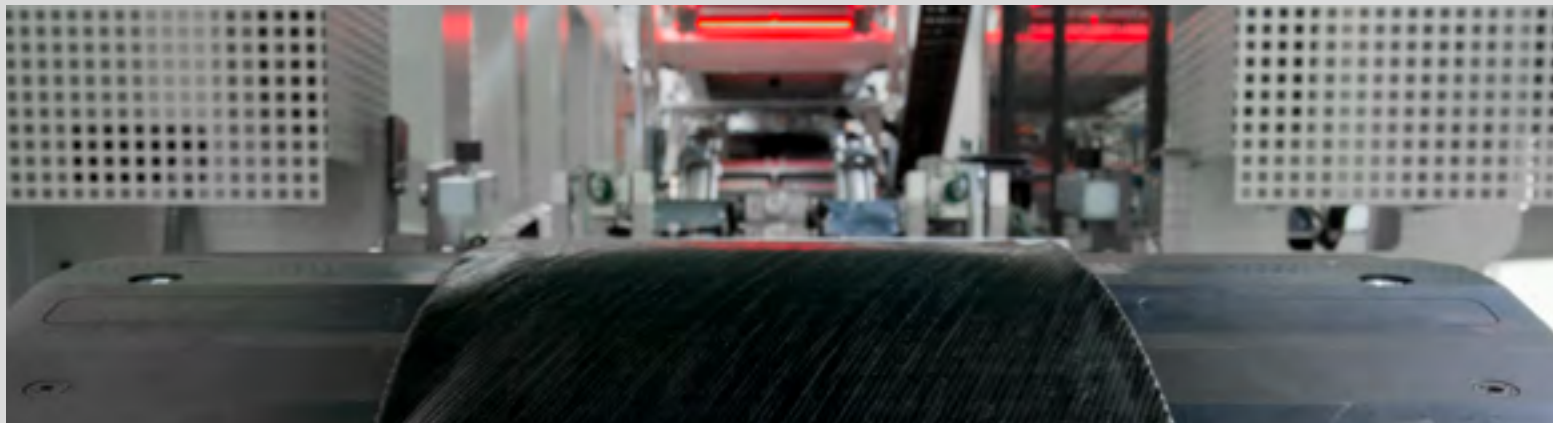
Some years ago, TKH brought cameras into its automated tire manufacturing systems. The vision and monitoring system called PIXSEL can be used to add an extra dimension to this. This is far more than just specially developed, extremely reliable cameras that deliver better machine performance. It is a complete platform with the possibility of on-line connectivity. It is an integrated system that can also be used as a stand-alone application. By linking images from various cameras it is also possible to inspect larger areas. Smart software enables the system to trace defects and correct them during the process. In addition, the software makes extensive use of visualization, which helps operators to monitor

the process more easily. The result is both greater accuracy in terms of performance and greatly improved simplicity of operation and administration, which leads to better productivity straight away.

Cameras are automatically calibrated and lens distortion is identified and compensated. Sensors are used on the machines to identify all actions that differ from the agreed tolerances, resulting in automatic intervention. To apply rubber strips, for example, each overlap is measured to ensure that they remain within the tolerances. Smart algorithms developed by TKH are able to interpret the images to enable automated intervention and, in so

doing, optimize the process, while the advanced visualization software makes it easier for operators to understand what is happening at all times.

This makes quality-assurance processes easier, and they are improved due to full integration of the camera system in the machine. As a result, measurements are made with minimum impact on output. Automatic calibration and validation also form part of the system. This meets demand from the tire manufactures to demonstrate to the market that they produce quality tires.



## ACCURACY



0.1 MM

## FRAME RATE



300-  
30,000 FPS

## SENSOR RESOLUTION



1,3 - 5 MPIXEL

## ADDED MEASUREMENT TIME



0 SEC.

## SPLICES MEASURED PER TIRE



100%



# SMART MANUFACTURING IN THE HEALTHCARE MARKET

TKH deploys smart manufacturing technology in response to the ever stricter quality measures set by the pharmaceutical industry to reliably package different medications as a single unit per sachet, per time of administration.

In addition, stricter rules apply with regard to materials that come into direct contact with the medicines. With its smart manufacturing technology TKH makes it possible to achieve a real step-by-step change in quality, speed, costs and, not least, accuracy using a tried-and-tested industrial robot called INDIVION.





## INDUSTRIAL SOLUTIONS

# IMPROVED DISPENSING OF MEDICATION BY USING THE INDIVION

The fully-automated INDIVION medicine dosage system was recently successfully installed for a launching customer, and used for the first time. The INDIVION comprises an industrial robot that puts canisters, each filled with a specific medication, onto the correct docking stations so that the medications can be dispensed. With the INDIVION, the maximum drop height for medications in the system is just 20 centimeters compared with an average drop height of one meter, which is customary in the market. This prevents damage or cross-contamination between medicines. The INDIVION canisters each have a unique

RFID tag from which the correct information can be read by a reader linked to the PHARYS database so that the reader can determine precisely which medications are in the machine, and how to control this specific canister for the correct dispensation of medicines. Single dose, multi dose, rush orders, expiry date-related changes, production related to method of treatment; all this is possible using the PHARYS software that helps safeguard the entire process-management chain in the central filling pharmacy together with the control of the INDIVION. The INDIVION has unrivalled capacity and produces up to

10,000 individual units per hour, while providing an absolute minimum risk of cross-contamination and incorrect dosage. The dispensation accuracy of 99.97% is also unrivalled in the market. Moreover, the INDIVION is the most cost-effective solution available on the market due to the reduction in manual labour and a minimal number of errors that equates to almost zero. This technology, together with the use of validated and certified materials, reduces the business risks for medicine dispensers but, more importantly, reduces health risks to patients. And, ultimately, that's what it's all about.



## CAPACITY



>10,000  
UNITS PER HOUR

SMART CANISTERS WITH  
RFID TECHNOLOGY

>1,000

## DISPENSING ACCURACY



99.97%

## MAXIMUM DROP HEIGHT



<20<sub>CM</sub>

## TRACEABILITY



100%



# SUMMARIZED FINANCIAL STATEMENTS

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127 CONSOLIDATED BALANCE SHEET

---

128 CONSOLIDATED STATEMENT OF PROFIT AND LOSS

---

129 CONSOLIDATED STATEMENT OF COMPREHENSIVE  
INCOME

---

130 CONSOLIDATED STATEMENTS OF CHANGES IN  
GROUP EQUITY

---

131 CONSOLIDATED CASH FLOW STATEMENT

---

132 NOTES TO THE SUMMARIZED FINANCIAL  
STATEMENTS

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# CONSOLIDATED BALANCE SHEET

in thousands of euros

31-12-2019

31-12-2018

**ASSETS****Non-current assets**

Intangible non-current assets	596,404	544,098
Tangible non-current assets	230,938	245,392
Right-of-use assets	80,752	0
Investment property	0	251
Other associates	28,635	12,047
Receivables	1,966	2,007
Deferred tax assets	20,962	17,104
<b>Total non-current assets</b>	<b>959,657</b>	<b>820,899</b>

**Current assets**

Inventories	238,801	266,961
Receivables	176,535	223,473
Contract assets	115,692	128,137
Contract costs	1,896	3,555
Current income tax	1,589	1,081
Cash and cash equivalents <sup>1</sup>	78,976	83,180
<b>Total current assets</b>	<b>613,489</b>	<b>706,387</b>

Assets held for sale

	38,775	
<b>Total assets</b>	<b>1,611,921</b>	<b>1,527,286</b>

in thousands of euros

31-12-2019

31-12-2018

**EQUITY AND LIABILITIES****Group Equity**

Shareholders' equity	704,516	646,459
Non-controlling interests	304	1,190
<b>Total group equity</b>	<b>704,820</b>	<b>647,649</b>

**Non-current liabilities**

Interest-bearing loans and borrowings	415,803	238,537
Deferred tax liabilities	65,528	60,398
Retirement benefit obligation	5,759	7,984
Financial liabilities	4,971	588
Provisions	6,296	5,217
<b>Total non-current liabilities</b>	<b>498,357</b>	<b>312,724</b>

**Current liabilities**

Interest-bearing loans and borrowings <sup>1</sup>	58,050	170,569
Trade payables and other payables	254,244	314,613
Contract liabilities	49,187	57,032
Current income tax liabilities	11,824	6,924
Financial liabilities	3,682	4,831
Provisions	19,069	12,944
<b>Total current liabilities</b>	<b>396,056</b>	<b>566,913</b>

Liabilities directly associated with assets held for sale

	12,688	
<b>Total equity and liabilities</b>	<b>1,611,921</b>	<b>1,527,286</b>

<sup>1</sup> Including € 10.0 million (2018: € 22.3 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 PROFIT AND LOSS

in thousands of euros

	2019	2018 <sup>1</sup>
<b>Total turnover</b>	<b>1,489,642</b>	<b>1,457,754</b>
Raw materials, consumables, trade products and subcontracted work	771,483	767,811
Personnel expenses	382,518	355,757
Other operating expenses	136,144	137,218
Depreciation	45,347	26,186
Amortization	50,070	40,083
Impairments	4,971	1,543
<b>Total operating expenses</b>	<b>1,390,533</b>	<b>1,328,598</b>
<b>Operating result</b>	<b>99,109</b>	<b>129,156</b>
Financial income	533	1,574
Financial expenses	-9,789	-7,685
Exchange differences	-869	-242
Share in result of associates	419	1,873
Fair value changes of financial liability for earn-out and put options of shareholders of non-controlling interests	-57	520
<b>Result before tax</b>	<b>89,346</b>	<b>125,196</b>
Tax on result	20,619	27,278
<b>Net result for the period from continued operations</b>	<b>68,727</b>	<b>97,918</b>
Result- after tax from discontinued operations	45,200	10,818
<b>Net result</b>	<b>113,927</b>	<b>108,736</b>
Attributable to:		
Shareholders of the company	114,048	108,551
Non-controlling interests	-121	185
	<b>113,927</b>	<b>108,736</b>
<b>Earnings per share attributable to shareholders</b>		
Ordinary earnings per share (in €)	2.72	2.58
Diluted earnings per share (in €)	2.71	2.57
<b>Earnings per share attributable to shareholders from continued operations</b>		
Ordinary earnings per share (in €) continued operations	1.64	2.33
Diluted earnings per share (in €) continued operations	1.63	2.31
Ordinary earnings per share before amortization and one-off income and expenses (in €) continued operations <sup>2</sup>	2.04	2.62
Ordinary earnings per share before amortization (in €) continued operations <sup>2</sup>	2.51	2.72

<sup>1</sup> The comparative figures for 2018 have been restated due to discontinued operations.

<sup>2</sup> Non IFRS compulsory disclosure.



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of euros

	2019	2018
<b>Net result</b>	<b>113,927</b>	<b>108,736</b>
<b>Items that may be reclassified subsequently to profit or loss (net of tax)</b>		
Currency translation differences	3,452	-457
Currency translation differences in other associates	50	-149
Effective part of changes in fair value of cash flow hedges (after tax)	2,283	-5,903
	<b>5,785</b>	<b>-6,509</b>
<b>Items that will not be reclassified subsequently to profit or loss (net of tax)</b>		
Actuarial gains/(losses)	-371	237
	<b>-371</b>	<b>237</b>
<b>Other comprehensive income (net of tax)</b>	<b>5,414</b>	<b>-6,272</b>
<b>Comprehensive income for the period (net of tax)</b>	<b>119,341</b>	<b>102,464</b>
Attributable to:		
Shareholders of the company	119,458	102,307
Non-controlling interests	-117	157
<b>Total comprehensive income for the period (net of tax)</b>	<b>119,341</b>	<b>102,464</b>



# CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

in thousands of euros	Share capital	Share premium	Legal reserve	Revaluation reserve	Translation reserve	Cashflow hedge reserve	Retained earnings	Unappropriated profit	Total shareholders' equity	Non-controlling interests	Total group equity
<b>Balance at 1 January 2018</b>	<b>10,709</b>	<b>85,021</b>	<b>55,133</b>	<b>188</b>	<b>9,225</b>	<b>2,441</b>	<b>344,526</b>	<b>86,302</b>	<b>593,545</b>	<b>8,437</b>	<b>601,982</b>
Net result								108,551	108,551	185	108,736
Total other comprehensive income					-578	-5,903	237		-6,244	-28	-6,272
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-578</b>	<b>-5,903</b>	<b>237</b>	<b>108,551</b>	<b>102,307</b>	<b>157</b>	<b>102,464</b>
Appropriation profit last year							86,302	-86,302	0		0
Dividends							-50,435		-50,435		-50,435
Dividends to shareholders of non-controlling interests							-1,104		-1,104	-58	-1,162
Acquisition of non-controlling interests							7,346		7,346	-7,346	0
Share and option schemes							2,303		2,303		2,303
Purchased shares for share and option schemes							-13,482		-13,482		-13,482
Sold shares for share and option schemes							5,979		5,979		5,979
Change in legal reserve for participations			-605				605		0		0
Capitalized development costs			9,595				-9,595		0		0
Reclassifications					-310		310		0		0
<b>Balance at 31 December 2018</b>	<b>10,709</b>	<b>85,021</b>	<b>64,123</b>	<b>188</b>	<b>8,337</b>	<b>-3,462</b>	<b>372,992</b>	<b>108,551</b>	<b>646,459</b>	<b>1,190</b>	<b>647,649</b>
Net result								114,048	114,048	-121	113,927
Total other comprehensive income					3,498	2,283	-371		5,410	4	5,414
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,498</b>	<b>2,283</b>	<b>-371</b>	<b>114,048</b>	<b>119,458</b>	<b>-117</b>	<b>119,341</b>
Appropriation profit last year							108,551	-108,551	0		0
Capital contribution									0	58	58
Dividends							-58,772		-58,772		-58,772
Dividends to shareholders of non-controlling interests							-523		-523	-42	-565
Acquisition of non-controlling interests							-80		-80	-785	-865
Realization through sale of investment property				-188			188		0		0
Share and option schemes							2,141		2,141		2,141
Purchased shares for share and option schemes							-12,395		-12,395		-12,395
Sold shares for share and option schemes							8,228		8,228		8,228
Change in legal reserve for participations			4,175				-4,175		0		0
Capitalized development costs			12,130				-12,130		0		0
<b>Balance at 31 December 2019</b>	<b>10,709</b>	<b>85,021</b>	<b>80,428</b>	<b>0</b>	<b>11,835</b>	<b>-1,179</b>	<b>403,654</b>	<b>114,048</b>	<b>704,516</b>	<b>304</b>	<b>704,820</b>

# CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	2019	2018
<b>Cash flow from operating activities</b>		
Operating result from continued operations	99,109	129,156
Operating result from discontinued operations	8,864	13,572
Depreciation, amortization and impairment	100,645	69,957
Share and option schemes not resulting in a cash flow	2,141	2,303
Result on disposals	-257	-193
Changes in provisions	7,906	1,114
Changes in working capital	75	-55,169
<b>Cash flow from operations</b>	<b>218,483</b>	<b>160,740</b>
Interest received	531	1,410
Interest paid	-9,374	-7,394
Income taxes paid	-27,431	-28,038
<b>Net cash flow from operating activities (A)</b>	<b>182,209</b>	<b>126,718</b>
<b>Cash flow from investing activities</b>		
Dividends received from non-consolidated associates	72	243
Repayments on loans	82	971
Purchases of tangible non-current assets	-31,273	-40,921
Disposals of tangible non-current assets	627	894
Divestments of investment property	251	
Divestment of subsidiaries	83,473	
Divestment of associates	163	
Acquisition of subsidiaries less cash and cash equivalents acquired	-65,465	-116,229
Acquisition of associates	-16,354	
Investments in intangible non-current assets	-40,527	-35,218
Divestments in intangible non-current assets	82	33
<b>Net cash flow from investing activities (B)</b>	<b>-68,869</b>	<b>-190,227</b>

in thousands of euros

	2019	2018
<b>Cash flow from financing activities</b>		
Dividends paid	-59,337	-51,597
Settlement of financial liabilities regarding put options of non-controlling interests and earn-out	-4,682	-251
Capital contribution non-controlling interests	58	
Acquisition of non-controlling interests	-865	-9,000
Purchased shares for share and option schemes	-12,395	-13,482
Sold shares for share and option schemes	8,228	5,979
Payment of lease liabilities	-15,780	
Proceeds from long-term debts	99,013	52,745
(Repayments)/proceeds from other long-term debts	661	-1,779
Change in borrowings and bridge facility	-113,063	99,642
<b>Net cash flow from financing activities (C)</b>	<b>-98,162</b>	<b>82,257</b>
<b>Net increase/(decrease) in cash and cash equivalents (A+B+C)</b>	<b>15,178</b>	<b>18,748</b>
Exchange differences	63	-3,556
<b>Change in cash and cash equivalents</b>	<b>15,241</b>	<b>15,192</b>
Cash and cash equivalents at 1 January	60,905	45,713
<b>Cash and cash equivalents at 31 December</b>	<b>76,146</b>	<b>60,905</b>

# NOTES TO THE SUMMARIZED FINANCIAL STATEMENTS

## 1 SUMMARIZED FINANCIAL STATEMENTS

This condensed Annual Report 2019 is a summarized version of the full annual report 2019 of TKH. The full Annual Report 2019 is the official reporting document for Dutch statutory purposes. The financial overviews in the summarized financial statements are derived from the audited financial statements 2019 of TKH, which is part of the full Annual Report 2019. At those financial statements, an Independent Auditor's Report is provided. The financial overviews should be read in conjunction with the financial statements, from which these have been derived. For (interpretation) differences and/or discrepancies, the full annual report 2019 prevails. The full Annual Report 2019 (including Financial Statements) can be downloaded from the website of TKH: [www.tkhgroup.com](http://www.tkhgroup.com).

## 2 ACCOUNTING PRINCIPLES

The consolidated financial statements of TKH Group NV (hereafter 'TKH') have been drawn up in accordance with the International Financial Reporting Standards ('IFRS') adopted by the European Commission and applicable on the accounting period that begins on 1 January 2019. The principles for the recognition and measurement of assets and liabilities and determination of the result, as prescribed by IFRS, have not been included in the financial statements. For a complete overview reference is made to the full financial statements of TKH.

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

## 3 IFRS 16 LEASES

A change in accounting policies in 2019 is the application of the new standard IFRS 16 Leases. The application of IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. 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 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. The interest discount effect has an impact on the net result. In 2019, the sum of depreciation and interest charges is higher than if the old accounting policy had been continued. However, the effect of this on the net result is not 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.

TKH has opted for a 'limited retrospective method'. Whereby the comparative figures will not be adjusted and the changes will be recognized in the opening balance of 2019. TKH has chosen the option to equate the initial value of the lease asset to the amount of the lease liabilities. As a consequence the application of IFRS 16 has no effect on equity per 1 January 2019.

In addition to the choice for the 'limited retrospective method', TKH uses a number of exemptions:

- IFRS 16 is not applied to intangible assets.
- TKH has chosen to use the exemption to not re-assess on 1 January 2019 whether a contract is or contains a lease agreement.
- Use of a single discount rate for a portfolio of contracts with fairly similar characteristics.
- Leases of assets with a low value or with a term of less than one year are excluded.
- TKH relies on the earlier assessment of loss-making contracts, which means that no impairment analysis has been performed on the initially recognized 'Right-of-use assets'.
- The service costs for lease objects are accounted separately and are not included in the assets and lease obligations.
- The use of subsequent known information in determining the lease term for contracts which contained options for extension or termination.



The weighted average 'incremental borrowing rate' applied on 1 January 2019 is 2.3%  
The impact of IFRS 16 on the consolidated opening balance sheet as at 1 January 2019 is as follows:

in thousands of euros	31-12-2018	IFRS 16 restatement	Restated balance sheet 1-1-2019
<b>Assets</b>			
Total non-current assets	820,899	87,800	908,699
Total current assets	706,387	739	707,126
<b>Total assets</b>	<b>1,527,286</b>	<b>88,539</b>	<b>1,615,825</b>
<b>Equity and liabilities</b>			
Total group equity	647,649		647,649
Total non-current liabilities	312,724	75,221	387,945
Total current liabilities	566,913	13,318	580,231
<b>Total equity and liabilities</b>	<b>1,527,286</b>	<b>88,539</b>	<b>1,615,825</b>

The table below indicates the reconciliation between the Operational lease and rental obligations at 31 December 2018, discounted at the above mentioned weighted average 'incremental borrowing rate', and the IFRS 16 lease obligation as included in the opening balance sheet. The difference between the above mentioned € 88.5 million and the below mentioned € 91.5 million is mainly caused by advance receipts of incentives that were included under current liabilities.

in thousands of euros	
<b>Operational lease and rental obligations 31 December 2018</b>	<b>80,588</b>
Effect of low value leases and/or with a term of less than one year	-771
Effect of discounting	-10,669
Effect of extensions	22,786
Other	-452
<b>Lease liability 1 January 2019</b>	<b>91,482</b>

The impact of IFRS 16 on the consolidated profit and loss account of 2019 is as follows:

in thousands of euros	2019 excluding IFRS 16	IFRS 16 restatement	2019 including IFRS 16
<b>Total turnover</b>	<b>1,489,642</b>		<b>1,489,642</b>
Raw materials, consumables, trade products and subcontracted work	771,483		771,483
Personnel expenses	382,518		382,518
Other operating expenses	154,087	-17,943	136,144
Depreciation	29,225	16,122	45,347
Amortization	50,070		50,070
Impairments	4,971		4,971
<b>Total operating expenses</b>	<b>1,392,354</b>	<b>-1,821</b>	<b>1,390,533</b>
<b>Operating result</b>	<b>97,288</b>	<b>1,821</b>	<b>99,109</b>
Financial income and expenses	-7,792	-1,971	-9,763
<b>Result before tax</b>	<b>89,496</b>	<b>-150</b>	<b>89,346</b>
Tax on profit	-20,675	56	-20,619
<b>Net result for the period from continued operations</b>	<b>68,821</b>	<b>-94</b>	<b>68,727</b>

## 4 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)

Operating segments	Telecom Solutions		Building Solutions		Industrial Solutions		Other and eliminations		Total	
in thousands of euros (unless stated otherwise)	2019	2018 <sup>1</sup>	2019	2018 <sup>1</sup>	2019	2018 <sup>1</sup>	2019	2018 <sup>1</sup>	2019	2018 <sup>1</sup>
Revenue per subsegment										
Indoor telecom systems & copper networks	69,432	69,455							69,432	69,455
Fibre network systems	131,028	125,074							131,028	125,074
Building connectivity systems			334,272	315,327					334,272	315,327
Vision & security systems			410,727	388,349					410,727	388,349
Manufacturing systems					544,183	559,549			544,183	559,549
Total turnover	200,460	194,529	744,999	703,676	544,183	559,549	0	0	1,489,642	1,457,754
Geographic segments										
Netherlands	52,750	41,765	203,156	204,229	45,501	41,324			301,407	287,318
Europe (other)	135,030	133,862	292,225	253,409	205,642	216,758			632,897	604,029
Asia	11,194	16,046	125,628	114,515	190,345	205,054			327,167	335,615
North America	701	453	93,517	95,159	92,782	89,926			187,000	185,538
Other	785	2,403	30,473	36,364	9,913	6,487			41,171	45,254
Total turnover	200,460	194,529	744,999	703,676	544,183	559,549	0	0	1,489,642	1,457,754
Timing of revenue recognition										
Revenue at a point-in-time	198,469	192,470	685,739	615,665	111,515	112,843			995,723	920,978
Revenue over time	1,752	1,987	58,273	87,467	431,437	444,977			491,462	534,431
Revenues from contracts with customers	200,221	194,457	744,012	703,132	542,952	557,820	0	0	1,487,185	1,455,409
Other revenues	239	72	987	544	1,231	1,729			2,457	2,345
Total turnover	200,460	194,529	744,999	703,676	544,183	559,549	0	0	1,489,642	1,457,754
Result										
EBITA before one-off expenses	30,826	28,139	75,469	69,584	81,359	92,264	-15,200	-14,994	172,454	174,993
ROS	15.4%	14.5%	10.1%	9.9%	15.0%	16.5%			11.6%	12.0%
One-off expenses			-17,174	-3,547	-1,130	-326		-338	-18,304	-4,211
Amortization	-947	-1,164	-40,593	-30,301	-8,513	-8,598	-17	-20	-50,070	-40,083
Impairments	92	4	-4,883	-238	-180	-1,309			-4,971	-1,543
Segment operating result	29,971	26,979	12,819	35,498	71,536	82,031	-15,217	-15,352	99,109	129,156

## Operating segments (continued)

Operating segments (continued)	Telecom Solutions		Building Solutions		Industrial Solutions		Other and eliminations		Total	
in thousands of euros (unless stated otherwise)	2019	2018 <sup>1</sup>	2019	2018 <sup>1</sup>	2019	2018 <sup>1</sup>	2019	2018 <sup>1</sup>	2019	2018 <sup>1</sup>
Other information										
Investments in intangible and tangible non-current assets, Right-of-use assets, including acquisitions	10,411	7,247	127,007	199,334	23,481	30,874	347	315	161,246	237,770
Depreciation and amortization	6,158	4,682	67,670	43,799	21,215	17,482	374	306	95,417	66,269
Employees (FTE)	731	726	2,984	2,966	2,235	2,204	30	31	5,980	5,927
Balance sheet										
Assets	181,842	166,514	950,179	851,875	408,784	491,825	3,706	5,025	1,544,511	1,515,239
Assets held for sale			37,832		943				38,775	0
Other associates	9,252	9,282	2,777	2,731	16,604	32	2	2	28,635	12,047
Consolidated total assets	191,094	175,796	990,788	854,606	426,331	491,857	3,708	5,027	1,611,921	1,527,286
Liabilities	45,585	44,554	191,232	187,311	183,227	225,333	474,369	422,439	894,413	879,637

<sup>1</sup> The comparative figures for 2018 of the profit and loss account have been restated due to discontinued operations.

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.

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.

	Total turnover <sup>1</sup>	
in thousands of euros	2019	2018
<b>Vertical markets</b>		
Fibre Optics Networks	136,549	133,692
Parking	59,162	58,266
Tunnel & Infra	132,989	95,607
Marine & Offshore	53,545	64,164
Care	58,160	57,172
Machine Vision	143,026	128,923
Tire Building Industry	330,148	330,739
Other vertical markets	576,063	589,191
<b>Total turnover</b>	<b>1,489,642</b>	<b>1,457,754</b>

<sup>1</sup> The comparative figures for 2018 of the profit and loss account have been restated due to discontinued operations.

	Total turnover <sup>1</sup>		Non-current assets <sup>2</sup>		Employees (FTE)	
in thousands of euros (unless stated otherwise)	2019	2018	2019	2018	2019	2018
<b>Geographic segments</b>						
Netherlands	301,407	288,939	279,041	234,833	35%	34%
Europe (other)	632,897	604,029	505,313	421,897	41%	41%
Asia	327,167	335,615	87,428	78,090	16%	16%
North America	187,000	185,538	62,724	60,930	7%	7%
Other	41,171	43,633	4,189	8,045	1%	2%
<b>Total</b>	<b>1,489,642</b>	<b>1,457,754</b>	<b>938,695</b>	<b>803,795</b>	<b>100%</b>	<b>100%</b>

<sup>1</sup> The comparative figures for 2018 have been restated due to discontinued operations.

<sup>2</sup> The non-current assets are shown excluding the deferred tax assets.

## 5 ORDER BOOK

The following table shows the expected future revenue with regard to contractual performance obligations that are not (or partially) completed on the balance sheet date:

in thousands of euros	2019	2018
Expected to be recognized as revenue within 1 year	394,292	400,299
Expected to be recognized as revenue between 1 and 2 years	20,333	34,832
Expected to be recognized as revenue after 2 years	8,785	8,320
<b>Total</b>	<b>423,410</b>	<b>443,451</b>

In the contractual performance obligations at 31 December 2018 is an amount of € 39.9 million included for the industrial connectivity activities that were divested in 2019.

## 6 ACQUISITIONS

During 2019, TKH acquired the following companies:

Name subsidiary	Country	Legal ownership and control	Consolidation as from	Operating segment
Commend AG	Switzerland	100.0%	1 April 2019	Vision & security systems (Building Solutions)
ParkEyes S.L.	Spain	100.0%	1 April 2019	Vision & security systems (Building Solutions)
SVS-Vistek GmbH	Germany	100.0%	1 September 2019	Vision & security systems (Building Solutions)
FocalSpec Oy	Finland	100.0%	31 October 2019	Vision & security systems (Building Solutions)

The combined net assets acquired are comprised as follows:

in thousands of euros	Total acquisitions 2019			Total acquisitions 2018		
	Book value	Adjustments	Fair value	Book value	Adjustments	Fair value
Intangible non-current assets	3,670	41,614	45,284	4,917	72,752	77,669
Tangible non-current assets	784		784	2,570		2,570
Right-of-use assets		1,450	1,450			0
Loans and receivables	41		41	17		17
Inventories	8,048		8,048	8,309		8,309
Receivables	7,211		7,211	9,837		9,837
Cash and cash equivalents	3,106		3,106	3,640		3,640
Pensions			0	-174		-174
Provisions	-108		-108	-182		-182
Non-current liabilities	-5,844	-1,450	-7,294			0
Deferred tax	274	-10,341	-10,067	255	-18,001	-17,746
Borrowings			0	-35,027		-35,027
Current liabilities	-7,290		-7,290	-7,690		-7,690
<b>Acquired net assets</b>	<b>9,892</b>	<b>31,273</b>	<b>41,165</b>	<b>-13,528</b>	<b>54,751</b>	<b>41,223</b>
Goodwill paid			35,265			79,154
<b>Purchase price</b>			<b>76,430</b>			<b>120,377</b>
Contingent consideration			-7,859			-508
Cash and cash equivalents acquired			-3,106			-3,640
<b>Purchase price paid</b>			<b>65,465</b>			<b>116,229</b>

The fair value adjustments mainly concern acquired intangible assets such as intellectual property. The goodwill paid is attributable to the knowledge and skills of the workforce, expected synergy benefits through intensification of cooperation within the TKH group and alignment with TKH's strategic development. The recognized goodwill from the acquisitions is not tax deductible. The purchase price is paid in cash. For the acquisition of ParkEyes and FocalSpec, a conditional compensation based on earn-out has been agreed. This amount has been estimated based on expected future results.



## 7 DISCONTINUED OPERATIONS

On 16 July 2019, TKH reached agreement with Torqx Capital Partners on the sale of the majority of the industrial connectivity activities. The divestment is part of the 'Simplify & Accelerate' program announced on 12 June 2019 in which TKH has announced, among other things, that it will intensify the divestment of certain activities in order to support more targeted value creation. With this divestment an important strategic step has been taken. The divestment was completed on 15 August 2019. The main operating companies that were part of the divestment were Jobarco BV, Pantaflex BV and Capable BV (the Netherlands), TKD Kabel GmbH and Schrade Kabel & Elektrotechnik GmbH (Germany), TKH Kabeltechnik Sp. z.o.o. (Poland) and KC Industrie Srl (Italy). The activities have been continued from a newly established company under the name Cable Connectivity Group, in which TKH acquires a minority interest of 41.5%.

The net result of this group of companies for the past year is presented as result from discontinued operations. The comparative figures for the year 2018 in the profit and loss account have been adjusted accordingly. The same applies to the information per segment. The item result from discontinued activities comprises the operating results of the industrial connectivity activities as well as the results achieved on sale in 2019. The results of the discontinued activities can be specified as follows:

in thousands of euros

	2019	2018
<b>External turnover</b>	<b>109,425</b>	<b>174,692</b>
Total operating expenses	-100,561	-161,119
Financial result	-320	-371
<b>Result before tax</b>	<b>8,544</b>	<b>13,202</b>
Tax on result	-2,293	-2,384
<b>Net result</b>	<b>6,251</b>	<b>10,818</b>
Profit on disposal of discontinued operations	40,110	
Attributable tax expense	-1,161	
<b>Result after tax from discontinued operations</b>	<b>45,200</b>	<b>10,818</b>

The participation exemption applies to a large part of the profit from sales, for which no corporation tax is due.

The assets and liabilities on the balance sheet of the group of companies whose activities are not continued can be specified as follows at the time of sale:

in thousands of euros

<b>Assets</b>	
Intangible non-current assets	17,667
Tangible non-current assets	7,242
Right-of-use assets	5,574
Deferred tax assets	598
Inventories	35,072
Receivables	18,456
Contract assets	1,112
Current income tax	28
Cash and cash equivalents	9,095
<b>Assets held for sale</b>	<b>94,844</b>
<b>Liabilities</b>	
Non-current interest-bearing loans and borrowings	4,473
Deferred tax liabilities	289
Retirement benefit obligation	2,674
Provisions	76
Current interest-bearing loans and borrowings	1,101
Trade payables and other payables	31,407
Current income tax liabilities	1,143
Provisions	62
<b>Liabilities directly associated with assets held for sale</b>	<b>41,225</b>
<b>Net assets directly associated with disposal group</b>	<b>53,619</b>
Profit on disposal of discontinued operations	38,949
Cash and cash equivalents disposed of	-9,095
<b>Cash flow after tax from discontinued operations</b>	<b>83,473</b>

## 8 OVERVIEW OF NET PROFIT DEFINITIONS

in thousands of euros (unless stated otherwise)

	2019	2018 <sup>1</sup>
Net profit	113,927	108,736
Less: Non-controlling interests	121	-185
<b>Net profit attributable to the shareholders of the company</b>	<b>114,048</b>	<b>108,551</b>
Result after tax from discontinued operations	-45,200	-10,818
<b>Net profit attributable to the shareholders of the company from continuing operations</b>	<b>68,848</b>	<b>97,733</b>
Amortization of intangible non-current assets from acquisitions	23,108	16,318
Taxes on amortization	-6,243	-4,130
<b>Net profit before amortization from continuing operations attributable to the shareholders of the company</b>	<b>85,713</b>	<b>109,921</b>
One-off costs for restructurings, integrations, divestments and acquisitions	18,304	4,211
One-off costs in result of associates	841	
Impairments	4,971	1,543
Fair value changes of financial liability for earn-out and put options of shareholders of non-controlling interests	57	-520
Tax impact on one-off expenses and benefits	-4,577	-938
<b>Net profit before amortization and one-off income and expenses attributable to the shareholders of the company</b>	<b>105,309</b>	<b>114,217</b>

<sup>1</sup> The comparative figures for 2018 have been restated due to discontinued operations.

# OTHER INFORMATION

140 REGULATION FOR PROFIT APPROPRIATION

140 PROPOSAL FOR PROFIT APPROPRIATION

141 INDEPENDENT AUDITOR'S REPORT

142 STICHTING ADMINISTRATIEKANTOOR TKH GROUP

143 STICHTING CONTINUÏTEIT TKH

144 OPERATING COMPANIES

146 SUSTAINABILITY STATEMENTS AND REPORTING  
SYSTEM

152 GLOSSARY AND ALTERNATIVE PERFORMANCE  
MEASURES

154 TEN YEARS OVERVIEW

# 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](http://www.tkhgroup.com).

# PROPOSAL FOR PROFIT APPROPRIATION

in thousands of euros

Net profit attributable to shareholders: € 114,048.

In accordance with Article 33 of the articles of association, we propose paying the holders of (depository receipts of) ordinary shares a dividend of € 1.50 per (depository receipt of) ordinary share.

The dividend will be made available for payment on 15 May 2020.

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



# INDEPENDENT AUDITOR'S REPORT

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

## OUR OPINION

The summary financial statements 2019 (hereinafter: the summary financial statements) of TKH Group N.V. in Haaksbergen is derived from the audited financial statements 2019 of TKH Group N.V.

In our opinion the accompanying financial statements are consistent, in all material aspects, with the audited financial statements 2019 of TKH Group N.V., on the basis as described in the related explanatory notes.

The summary financial statements comprise:

- the consolidated balance sheet at 31 December 2019
- the following statements over 2019:
  - the consolidated statement of profit and loss
  - the consolidated statement of comprehensive income
  - the consolidated statement of changes in group equity and the consolidated cash flow statement
  - the accompanying related explanatory information

## SUMMARY FINANCIAL STATEMENTS

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards as adopted by the European Union (IFRS-EU). Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of TKH Group N.V. and our auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of nor disclosures about events that occurred subsequent after the date of our report on those financial statements of 4 March 2020.

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

We expressed an unqualified audit opinion on the financial statements 2019 of TKH Group N.V. in our auditor's report of 4 March 2020.

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

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

The Supervisory Board is responsible for overseeing the financial reporting process of the entity.

## OUR RESPONSIBILITIES

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

Zwolle, 25 March 2020

Ernst & Young Accountants LLP  
A.E. Wijnsma

# STICHTING ADMINISTRATIEKANTOOR TKH GROUP

(TKH Trust Office Foundation)

The objective of the Stichting Administratiekantoor TKH Group ('Stichting Administratiekantoor') is to acquire and hold in trust ordinary shares in TKH Group N.V., a public company which has its registered office in Haaksbergen (the Netherlands), in exchange for the allocation of convertible, registered depositary receipts for shares. In accordance with the provisions of Article 9 of the Trust Terms and Conditions governing the shares of TKH Group N.V., Stichting Administratiekantoor reports on the activities during the year under review, related to the administration of shares for which depositary receipts have been issued. The total nominal value of the ordinary shares of TKH Group N.V. held in administration amounted to € 10,672,987.25 on 31 December 2019, in exchange for which 42,691,949 depositary receipts for shares<sup>1</sup> with a nominal value of € 0.25 each have been issued.

## MEETINGS OF THE EXECUTIVE COMMITTEE

The Executive Committee of Stichting Administratiekantoor met three times during the financial year. At the meeting on 28 March the topics on the agenda of the 2019 General Meeting of Shareholders were discussed and the company provided an explanation of the TKH 2018 annual report. Stichting Administratiekantoor's 2018 financial statements were also discussed, approved and subsequently adopted. The Executive Committee reappointed Mr. Tiemstra as member of the Executive Committee of Stichting Administratiekantoor for a period of four years commencing on 1 July 2019. The meeting took place at the production site for subsea cable systems in Lochem. After the meeting, a general presentation on TKH's subsea cable systems was given, followed by a guided tour. At the meeting on 6 May 2019, the agenda items of the 2019 General Meeting of Shareholders were discussed and the Executive Committee decided on its preliminary voting intentions, in advance of the deliberations at the meeting itself. In the meeting of 19 September, the company explained the published half-year figures for 2019 and the 'Simplify & Accelerate' strategic transformation program. The schedule of retirement was discussed as well as the procedure to be followed for the vacancy that will arise in 2020.

At the 2019 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 the company's issued capital was represented. 66.2% of the holders of depositary receipts for shares requested a proxy from Stichting Administratiekantoor to vote independently on the shares in question. Prior to the meeting, 48.7% of the holders of depositary receipts gave voting instructions to Stichting Administratiekantoor. During the 2019 General Meeting of Shareholders, Stichting Administratiekantoor voted for the remaining 33.8% 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.

## EXECUTIVE COMMITTEE OF STICHTING ADMINISTRATIEKANTOOR

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

Mr. Noy was chairman of the Executive Board and CEO of ARCADIS N.V. He is currently chairman of the Supervisory Board of Fugro N.V. and of Royal BAM Groep N.V.

Mr. Tiemstra is director/owner of 'drs. J.S.T. Tiemstra Management Services BV'. He is currently member of the Supervisory Board of ABN AMRO N.V. and of Royal Haskoning DHV.

Mr. Visser was a civil-law notary / partner at Allen & Overy and subsequently affiliated with the University of Groningen. He is currently a non-executive director of ParkLane Insight B.V., chairman of Stichting De Bron and member of daily management of Stichting Ubbo Emmius Fonds, the Groningen University Foundation.

## SCHEDULE OF RETIREMENT

In accordance with the Schedule of Retirement of the Foundation, Mr. H.L.J. Noy will retire in 2020 and will be eligible for reappointment for a further term of two years. Mr. Noy has been a member of the Executive Committee of Stichting Administratiekantoor since 2012, and has been its chairman since 2015. He has offered himself for reappointment. In the opinion of the other board members, Mr. Noy meets the requirements for this position. In the context of governance, Mr. Noy represents the interests of all stakeholders, and those of the

shareholders and holders of depositary receipts in particular, in an objective and professional manner. Mr. Noy possesses managerial and financial knowledge and expertise. As former CEO of a large listed company, he has extensive experience with the organization of an internationally operating company such as TKH. Mr. Noy meets the requirements of independence, as stipulated in the articles of association of Stichting Administratiekantoor.

By means of its website, Stichting Administratiekantoor has given the holders of depositary receipts of shares the opportunity to put forward names of possible candidates that fit the profile. In the absence of another suitable candidate, the Board intends to reappoint Mr. H.L.J. Noy as a member of the Executive Committee, in the position of chairman, with effect from 1 July 2020 for a period of two years, taking into account the desired continuity of the Executive Committee.

## CONTACT DETAILS

- Address: Spinnerstraat 15, 7481 KJ Haaksbergen.
- Website: [www.stichtingadministratiekantoor.tkh.com](http://www.stichtingadministratiekantoor.tkh.com).
- Email: [stak@tkhgroup.com](mailto:stak@tkhgroup.com).

Haaksbergen, 2 March 2020  
Stichting Administratiekantoor TKH Group  
**The 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 TKH Group 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, 2 March 2020  
TKH Group N.V.  
**Executive Board**  
  
Haaksbergen, 2 March 2020  
Stichting Administratiekantoor TKH Group  
**The Executive Committee**

<sup>1</sup> The number of depositary receipts for shares has increased by 10,431 compared to 31 December 2018 due to the conversion of ordinary shares into depositary receipts for shares.

# STICHTING CONTINUÏTEIT TKH

(TKH Continuity Foundation)

The objective of Stichting Continuïteit TKH (hereinafter: “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 on issue longer than is strictly necessary. In the event that TKH shareholders actually acquire a degree of control which is regarded as undesirable or is not in the interests of TKH and its businesses, or there is a danger of them doing so, TKH’s executive 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. Stichting Continuïteit did not acquire any cumulative protective preference shares in TKH in 2019.

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

## EXECUTIVE COMMITTEE OF STICHTING CONTINUÏTEIT

The Executive Committee of Stichting Continuïteit consists of:

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

Haaksbergen, 2 March 2020

Stichting Continuïteit TKH

**The Executive Committee**

## STATEMENT OF INDEPENDENCE

The Executive Board of TKH Group N.V. and the Executive Committee of Stichting Continuïteit TKH state that, jointly and severally, they are of the opinion that Stichting Continuïteit TKH 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, 2 March 2020

TKH Group N.V.

**Executive Board**

Haaksbergen, 2 March 2020

Stichting Continuïteit TKH

**The Executive Committee**



# OPERATING COMPANIES

## Alphatronics BV

Boekdrukker 5-7  
3861 SE Nijkerk  
The Netherlands  
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I alphatronics.nl

## BB Lightpipe BV

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E info@bblightpipe.com  
I bblightpipe.com

## C&C Partners Sp. z.o.o.

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64-100 Leszno  
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E info@ccpartners.pl  
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## Commend Group

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5020 Salzburg  
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E office@commend.com  
I commend.com

*Also establishments in:*  
Dubai, Germany, France, Italy,  
the Netherlands, Singapore,  
Spain, Turkey, UK, USA,  
Sweden, Switzerland and  
Jacques Technologies - Australia

## Dewetron GmbH

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Austria  
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## Also establishments in:

China, Germany, France and  
USA

## EFB Elektronik GmbH

Striegauerstraße 1  
33719 Bielefeld  
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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

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1948 NT Beverwijk  
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E info@ekb.nl  
I ekbgroep.nl

*Also establishments in:*  
The Netherlands (Drachten,  
Haaksbergen, Houten and  
Somerens)

## Eldra BV

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6014 CB IJtervoort  
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T +31 475 56 67 67  
E info@eldra.nl  
I eldra.nl

## Ernst & Engbring GmbH

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*Also establishments in:*  
Germany (Forst), Ukrain and  
China

## HE System Electronic GmbH

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I he-system.com

## Intronics Groep BV

Koolhovenstraat 1E  
3772 MT Barneveld  
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and Spain

## Isolectra BV

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I isoelectra.nl

## Isolectra Communications Technology Sdn Bhd

Lot 10, Jalan Astaka U8/84  
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Selangor Darul Eshan  
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## Mextal BV

De Tienden 48  
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I mextal.com

## TKH PARKING

**Park Assist (HQ)**  
57 W 38th Street, 11th Floor  
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USA  
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*Also establishments in:*  
Australia, Dubai and Latin  
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## ParkEyes

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## Techno Specials NV

Ottergemsesteenweg Zuid 731a  
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## Texim Europe BV

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7483 PG Haaksbergen  
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I texim-europe.com

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## TKH France SAS / CAE Groupe

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*Also establishment in:*  
Morocco

## TKH Logistics BV

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*Also establishments in:*  
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Spain, UK and USA

## TKH VISION

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## Chromasens GmbH

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#### LMI Technologies Inc.

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#### Mikrotron GmbH

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#### SVS-Vistek

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#### TKH Security & Airport Solutions Asia Pte. Ltd.

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#### VMI Group

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*Also establishments in:*

China, Brazil, Germany, Malaysia, Poland, Russia and USA

# SUSTAINABILITY STATEMENTS AND REPORTING SYSTEM

## PROCEDURES, STANDARDS AND GUIDELINES

In the report of the Executive Board (which is part of the TKH annual report), we provide an account of, among other things, our sustainability performance during the year under review from 1 January 2019 up to 31 December 2019. The publication date of the report is 26 March 2020. We focus on topics that have been an integral part of our Corporate Social Responsibility (CSR) policy. We report in line with the Global Reporting Initiative (GRI) 'core' (the GRI index can be found on TKH's website). The content and definition of the report are based on the materiality analysis whereby TKH, in its choices regarding the depth and definition of the CSR report, focuses on the topics that are most material and that have a strong relationship with TKH's strategy and business operations. 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. We monitor our objectives based on a dashboard in our internal reporting system and evaluate the results every quarter, in meetings with our operating companies. 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 principle of Integrated Reporting is further implemented in the management report of the Annual Report 2019. We use the IIRC (International Integrated Report Council) model by which we provide insight on how to create value within the TKH group. This is explained further in the Report of the Executive Board on the basis of qualitative and quantitative information. In compiling the CSR report, we used information and results derived from our monthly internal reporting

structure and available from our organizations as part of their compliance with the ISO 14001 environmental management system, the OHSAS 18001 health & safety management system, the ISO 50001 standard for energy performance, the CSR Performance Ladder and the Dutch Corporate Governance Code and the Sustainable Development Goals. In addition, we used the findings and recommendations on the basis of providing information on the CDP platform, Ecovadis, Vigeo and MSCI.

To measure and report the CO<sub>2</sub> emissions, we use the distribution in the scopes of the Greenhouse Gas (GHG) protocol.

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

Our focus remains primarily on scope 1 and 2, because most of our emissions occurs within those scopes. We have expanded our internal dashboard with scope 3 components, but have not yet implemented a scope extension for CO<sub>2</sub> emissions in our calculation model. In calculating the CO<sub>2</sub> impact of its operations in 2019, 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, which offers 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. We use the input from those TKH operating companies 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 products delivered by TKH comply with the European directives REACH (Registration, Evaluation and Authorization of Chemicals) and ROHS (Restriction of Hazardous Substances). REACH is a European

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

In the context of human rights, TKH acts in the business activities according to the 'Universal Declaration of Human Rights'. We refer to our code of conduct and the code of supply (both of which can be downloaded from the website [www.tkhgroup.com](http://www.tkhgroup.com)). We support the OECD guidelines that provide us with guidance regarding such issues as supply chain responsibility, human rights, child labour and the environment. We have provided our input on the Transparency Benchmark information platform, an initiative of the Ministry of Economic Affairs and Climate. The Dutch government asks companies to be transparent about their CSR policies and activities. Through the Transparency Benchmark, the ministry offers insight into the way in which the largest Dutch companies report on their CSR activities. TKH has achieved a 27th position with a relative score of 70%. We also take the spearhead letters from advocates on themes related to sustainability and governance, such as those from VBDO, Eumedion and VEB, as a guideline for further transparency.

We have provided our input to the Carbon Disclosure Project (CDP), MSCI, Vigeo and S&P Dow Jones Indices. For the circular economy we focus on the defined ambitions that the Netherlands has set in the Circular Innovation Program "Plastic and rubber in the underground infrastructure" and the Dutch Infrastructure companies in their "Mission Statement Fair Infra".

We have used data from Statistics Netherlands for the benchmark data on absenteeism. The benchmark data for the employee and customer satisfaction survey came from research firm Integron. For benchmarking employee satisfaction and NPs in an international perspective, we use 'The Global Employee Engagement Index™'. For benchmarking the NPs for customer satisfaction, the NPs score of Integron was used, which is based on the Dutch market.

The Executive Board is intensively involved in the CSR strategy and the implementation of the policy. Interactions with our operating companies ensure that 'best practices' are shared internally so that we can continuously improve our performance.

## OVERVIEW KPIs AND OBJECTIVES

## STRATEGIC PILLARS TKH

## INNOVATIVE &amp; VALUE CREATION



## KPIs

## OBJECTIVES















## MATRIX-NR.

Portfolio at an early stage of the product life cycle.	At least 15% of turnover, that is introduced in the previous two years.	4
Net interest-bearing debt / EBITDA (debt leverage ratio).	<2.0.	5
Return On Sales (ROS).	>15% medium-term.	5
Return On Capital Employed (ROCE).	22-25% medium-term.	5
Solvency.	>35%.	5
Number of hours spent on education and training per FTE.	At least 16 hours / year per FTE.	11
Accident rate (Lost Time Injury Frequency; LTIF).	<1.0.	10
Total absenteeism compared to the number of FTEs.	<4.0%.	10
Employee satisfaction survey.	At least in accordance with the benchmark (7.1).	9
Number of employees who have signed the TKH code of conduct.	100%.	14
Code of conduct.	No breaches.	14
Number of employees with disabilities and / or distance to the labor market.	Maintain current number.	12, 13
Total energy consumption in kWh / turnover.	5% reduction in 2020 compared to 2015.*	16
Carbon footprint (CO <sub>2</sub> emissions).	2.5% reduction in 2020 compared to 2015.*	16
Fleet: CO <sub>2</sub> standard, expressed in grams / km.	<95 grams / km (average) in 2020.	16
Total waste most relevant raw materials, compared to total material consumption.	<5% of annual material consumption.	17
Recycling most relevant raw materials.	>50%.	17
Customer satisfaction research.	Average score above benchmark (7.8).	18
Total number of product-related complaints that are completed within 5 business days.	>60%.	18
Number of complaints received that are related to environmental requirements.	No complaints.	14
Percentage of signed code of supply (suppliers' purchase volume from € 1 million).	100%.	14
% assessments conducted at strategic suppliers.	Within 2 years after signing the code of supply.	14
Amount of community investments, expressed as % of net profit before one-off income and expenses.	0.2% - 1.0% of net profit before non-recurring income and expenses.	20

## BEING RESPONSIBLE



## TRENDS IN CSR

TREND	OUR ADDED VALUE/ OPPORTUNITIES	TARGETS	POSSIBLE RISKS	STRATEGIC PILLAR TKH	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 - R&D Roadmap. Integration of companies with strengthening R&D Roadmap.	Acquired companies are not successfully integrated. Speed of competitors' technological developments with more perspective.	INNOVATIVE	 
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.	INNOVATIVE	
Growing demand for efficiency and providing integrated solutions.	Innovative capability and investment in R&D. Knowledge of the market and customers' wishes.	Customer satisfaction.	Reputational damage because we do not sufficiently satisfy customers' expectations, resulting in underperformance of result and turnover development.	INNOVATIVE	
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.	INNOVATIVE	
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. 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.	TALENT EMPOWERMENT & BEING RESPONSIBLE	 
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.	No or insufficient match between the wishes and requirements of employer and employees, which may lead to conflicts.	BEING RESPONSIBLE	
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.	INNOVATIVE & BEING RESPONSIBLE	 
Awareness of the need to counteract climate change effects. - collaboration in the chain is necessary.	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.	BEING RESPONSIBLE	 
Resources are becoming depleted. Fossil fuels are becoming scarce. Attention to design in order to recover high-quality raw materials.	Waste reduction and recycling. Energy and CO <sub>2</sub> reduction program. Circular economy.	Targets for reducing CO <sub>2</sub> emissions. Recycling waste.	Important raw materials are unavailable or available in limited quantities. Commodity price volatility.	BEING RESPONSIBLE	 





## 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 table 'Trends in CSR' shows our added value in the field of CSR for each trend and how we steer this internally by setting concrete goals.

## 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.

The Executive Board is closely involved in determining material themes and the final weighting given to them by TKH. Among other things, the dialogues in the year under review have led that a higher relevance was given to some themes, among others to climate change, IT & Security and (gender) diversity in the workforce. Social themes that are considered to be less or not relevant by both our stakeholders and TKH are not further explained in the annual report. These include the local presence and socially responsible procurement themes. An overview of the key topics in 2019 with various stakeholders is included in the report of the Executive Board. In addition, the ranking of topics that have been determined as important for all stakeholder groups (vertical axis) and that are most impactful for TKH (horizontal axis) has been set aside in addition to the prioritization from the strategic roadmap. We measure and report on material issues. The subjects that are designated as less or non-material are managed in our organization without further numerical substantiation in the annual report.

## STAKEHOLDER DIALOGUES

### THEME

### DIALOGUE IN 2019

<b>BUSINESS-DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>We had discussions with suppliers and customers in order to jointly contribute to sustainability issues including high-quality recycle and circular cable types. We are deploying our knowledge of the market and technologies that support or improve our customers' business, and of sustainable product composition.</li> <li>The SDGs have been a recurring topic of conversation in talks with customers and suppliers.</li> </ul>
<b>GOOD EMPLOYMENT PRACTICES</b>	<ul style="list-style-type: none"> <li>TKH further highlighted vitality programs at operating companies that focus on the health and vitality of employees. A healthy and safe working environment was a recurring theme during employee meetings and 1-on-1 conversations with employees. We believe it is important that employees can share their concerns and contribute ideas for improvements.</li> <li>During the Works Council Day in October 2019, topical themes were shared with local Works Councils, including developments in the field of sustainability. The Works Council Day is also a unique opportunity for Works Councils to exchange knowledge and experience between each other.</li> <li>We have provided presentations and guided tours for schoolchildren and students to introduce them to our technologies and activities, and to enthuse them about TKH as a possible future employer.</li> <li>Over the past year, TKH brought the SDGs to the attention of the employees in order to create awareness of the theme.</li> </ul>
<b>INVESTOR RELATIONS</b>	<ul style="list-style-type: none"> <li>A Capital Markets Day was organized in June 2019 with an explanation of the 'Simplify &amp; Accelerate' strategy program. Developments within a few vertical markets have also been explained. Via an in-house exhibition, attendees were informed about the latest technologies and innovations within the TKH Group through among other things live demonstrations.</li> <li>In 2019, the CEO, CFO and the Director Corporate Development participated road shows and conferences in which talks were held with (potential) investors. In addition to financial and strategic topics, discussions increasingly focus on sustainability issues.</li> <li>During the publication of the annual and interim figures, analyst meetings were held that could also be followed on webcasts.</li> </ul>
<b>VALUE CHAIN INITIATIVES</b>	<ul style="list-style-type: none"> <li>We once again participated in sector initiatives aimed at the circular economy and value chain innovation programs. One of these was the innovation program 'Plastic and rubber in the underground infrastructure', in which we committed ourselves to the ambition for 100% circular use of materials in the underground infrastructure by 2040.</li> <li>As a supplier of cable systems, we are a consulting partner for Dutch infrastructure companies that focus on the 'Fair Infra' mission statement. The aim is to accelerate the transition to sustainable energy.</li> <li>We participate in steering and working groups of trade organizations that serve as platforms for monitoring developments in technologies and the market.</li> <li>As a participant in regional industrial platforms and student network groups, we focus on regional developments in employment and strengthening the economic position.</li> <li>Last year, we again discussed compliance with the guidelines set out in our code of supply with suppliers. In addition to allowing us insight into developments in the value chain, it also provides us with timely insight into potential risks.</li> <li>In the reporting year, discussions with chain partners were used to explain the SDGs and explore opportunities for joint initiatives. Agreements have also been made with suppliers about recycling and topics related to the circular economy.</li> </ul>
<b>REVIEW OF CURRENT SUSTAINABILITY THEMES AND POLICY</b>	<ul style="list-style-type: none"> <li>In 2019, TKH participated in several sustainability benchmarks such as the Carbon Disclosure Project (CDP), Vigeo and MSCI. Through participation we try to gain insight into our sustainability performance vis-à-vis our peers, so that we can further improve it.</li> </ul>

TKH AT A GLANCE	DEVELOPMENTS & RESULTS	GOVERNANCE	SECTION	FINANCIAL STATEMENTS	OTHER INFORMATION	≡
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In the identification of material aspects and the annual review of these, we consult among others the following sources:

- Outcomes of the stakeholder dialogues.
- Investor relations meetings about ESGs.
- General governance assumptions.
- Topics suggested by civil society organizations such as VBDO, VEB, Eumedion.
- Guidelines from Global Reporting Initiative (GRI) and international guidelines like OECD and SDG.
- Sustainability rating agencies such as CDP, Vigeo. MSCI and Ecovadis.
- Dutch Transparency benchmark.

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 Cable makers 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.

## MAIN CATEGORIES OF SUPPLIERS

The activities of the operating companies of TKH are diverse, so that they also work with various suppliers. For the cable production activities, the same raw material suppliers are used as much as possible in order to be able to utilize economies of scale and to make agreements on sustainability in the context of origin and recycling. Where possible, framework agreements are concluded with suppliers of NPR goods.

## SCOPE AND CHANGES COMPARED TO LAST YEAR

The CSR policy is not adjusted in 2019. 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.

In the year under review, 8 companies were divested due to the strategic transition program. In accordance with the IFRS requirements, the results of the companies are classified as 'discontinued operations'. The comparative figures for 2018 have also been adjusted accordingly. For some sustainability criteria, the divestment of activities has an impact on sustainability performance. Where this is important, the effects of the divestments are explained.

There have also been no changes in structure or ownership. Unless otherwise stated, the data are based on all our domestic and foreign operating companies. Where this is not so, this is explicitly mentioned. The operating companies 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.

## 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 consumption cannot yet be fully compared with the return that these investments will yield due to 'learning curve' effects.

The amount of waste is also influenced by 'learning curve' effects due to a thorough alignment of the production equipment with the production of innovative, high-quality new cable types. The quality requirement of the product is leading in this and may have a negative impact on the waste reduction ratio.

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 co-operation and make considered choices regarding the information posted. 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.

## INTERNAL AUDIT

The data have been audited by the responsible company officers as to plausibility and progress using the Cognos financial reporting model. Data were verified by TKH's financial department. 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 operating companies and the implementation of the code of supply at strategic suppliers. For specific sustainability issues, external expertise is hired. 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.

## 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'). TKH's Company Secretary (also Compliance Officer) 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 operating companies. There is also close co-operation 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 building of support within the Group and makes implementation more efficient and effective. Initiatives in the value chain are always attended by commercial managers in order to guarantee a pragmatic approach. In conducting the stakeholder dialogues, we work with executives from our operating companies, 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. If a report is made to an operating company that is qualified as inadmissible behaviour, the confidential officer of the operating company 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 operating company concerned. After the report has been investigated, the Executive Board will make a decision in consultation with the board of the operating company concerned or a representative of that board. The whistleblower scheme can be downloaded from the TKH website.

With purchasing managers, themes are discussed that concern the code of supply. If a supplier fails to meet one or more of the requirements in the code, action has to be taken how the supplier will become compliant in an effective and efficient way and 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 of the code. In such a case, we enter into dialogue to work towards a satisfactory solution. In such conversations, best practices are shared with the supplier concerned, in order to guide him in making improvements and to share ideas. The purchase manager has a pioneering role in this. The Company Secretary as the person responsible for CSR is frequently involved in such discussions. The code of supply as well as the assessment form can be downloaded via the TKH website.

The Executive Board discusses progress in CSR at least every quarter with the (clusters of) operating companies. 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. At least once a year, the progress in the field of CSR is also discussed with the Supervisory Board and future developments and the associated follow-up steps are explained.

For more information about TKH's sustainability program, please contact Renate Dieperink MBA ([r.dieperink@tkhgroup.com](mailto:r.dieperink@tkhgroup.com)). Please feel free to send any feedback you may have on this report to this e-mail address. For up-to-date information on sustainability, you can also consult our website: [www.tkhgroup.com/csr](http://www.tkhgroup.com/csr).

# 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 2019 but are not defined in any law or in IFRS. The European Securities and Markets Authority (ESMA) have issued guidelines that apply as from 3 July 2016 for the use and disclosure of alternative performance measures. The terms TKH sees as an alternative performance measure are included in this chapter of the Annual Report. The alternative performance measures are marked with \* and includes a definition as required by the ESMA directive.

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

**BEPS (Base Erosion and Profit Shifting)** the negative effect of tax evasion. The OECD works on behalf of the G20 two years on the so-called BEPS project, which makes recommendations to prevent such harmful tax practices. The aim of the plan is that profits are taxed in the country in which the activities are performed and the added value is created.

**Broadband connection** a collective name for a connection with a high transport capacity. Technically, such a connection can be established by a COAX modem, an ADSL modem or using a Fibre To The

Home connection. The latter solution currently offers the fastest (internet) connection.

**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.\*

**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) x 100.\*

**EBITA** result before interest, taxes, impairments and amortization.\*

**EBITDA** result before interest, taxes, impairments, depreciation and amortization.\*

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

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

**ICT (information and Communication Technology)** rapidly progressing integration is occurring between information technology, that is to say computers, and data and telecommunication. Indoor telecom telecommunication facilities in the home.

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

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

**Innovations TKH** at least 15% of 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.

**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.

**Net Promotor Score (NPS)** measures the internal (ESS) and external (CSS) reputation.

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

**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.

**Task Force on Climate-related Financial Disclosures (TCFD)** a list of recommendations for benchmarking companies on (financial) risks and opportunities due to climate change.

**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 operating companies 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.

# TEN YEARS OVERVIEW

In millions of euros

	2019	2018 <sup>1</sup>	2017 <sup>2</sup>	2016	2015	2014	2013	2012	2011	2010
<b>Consolidated statement of profit and loss</b>										
<b>Total turnover</b>	<b>1,490</b>	<b>1,458</b>	<b>1,485</b>	<b>1,341</b>	<b>1,375</b>	<b>1,346</b>	<b>1,198</b>	<b>1,102</b>	<b>1,061</b>	<b>894</b>
Raw materials, consumables, trade products and subcontracted work	771	768	817	710	743	770	699	652	649	545
Personnel expenses	369	352	347	331	326	296	277	234	210	174
Depreciation <sup>2</sup>	45	26	25	22	22	20	19	17	15	14
Other operating expenses	133	137	147	131	133	124	103	113	95	88
<b>Total operating expenses</b>	<b>1,318</b>	<b>1,283</b>	<b>1,336</b>	<b>1,194</b>	<b>1,224</b>	<b>1,210</b>	<b>1,098</b>	<b>1,016</b>	<b>969</b>	<b>821</b>
<b>EBITA before one-off income and expenses</b>	<b>172</b>	<b>175</b>	<b>149</b>	<b>147</b>	<b>151</b>	<b>136</b>	<b>100</b>	<b>86</b>	<b>92</b>	<b>73</b>
One-off income and expenses	18	4	6			9	-7	-12	-2	
<b>EBITA</b>	<b>154</b>	<b>171</b>	<b>143</b>	<b>147</b>	<b>151</b>	<b>145</b>	<b>93</b>	<b>74</b>	<b>90</b>	<b>73</b>
Impairments	5	2	2	1	1	1				
Amortization	50	40	37	33	32	26	26	21	13	11
<b>Operating result</b>	<b>99</b>	<b>129</b>	<b>104</b>	<b>113</b>	<b>118</b>	<b>118</b>	<b>67</b>	<b>53</b>	<b>77</b>	<b>62</b>
Financial result	-10	-4		-7	-7	-10	-13	-12	-7	-7
Fair value changes of financial liability for earn-out and put options of shareholders of non-controlling interests			4	1						
<b>Result on ordinary activities before taxes</b>	<b>89</b>	<b>125</b>	<b>108</b>	<b>107</b>	<b>111</b>	<b>108</b>	<b>54</b>	<b>41</b>	<b>70</b>	<b>55</b>
Taxes	20	27	20	20	23	22	12	10	16	14
<b>Net result for the period from continued operations</b>	<b>69</b>	<b>98</b>	<b>88</b>	<b>87</b>	<b>88</b>	<b>86</b>	<b>42</b>	<b>31</b>	<b>54</b>	<b>41</b>
Result after tax from discontinued operations	45	11								
Non-controlling interests			1	1	2	3	5	3	1	1
<b>Attributable to shareholders</b>	<b>114</b>	<b>109</b>	<b>87</b>	<b>86</b>	<b>86</b>	<b>83</b>	<b>37</b>	<b>28</b>	<b>53</b>	<b>40</b>
<b>Key figures</b> (in % unless stated otherwise)										
EBITA/Turnover (ROS) <sup>3 4</sup>	11.6	12.0	10.1	10.9	11.0	10.0	8.3	7.8	8.7	8.2
Net result before amortization and one-off income and expenses/Group equity <sup>3 4</sup>	14.9	17.6	16.1	16.5	19.3	17.8	13.7	11.7	16.5	13.9
EBITA/Average capital employed (ROCE)	17.4	21.3	19.7	20.1	22.1	21.2	15.9	15.9	21.5	20.0
Net debt/EBITDA ratio <sup>3 4</sup>	1.5	1.4	0.9	1.0	0.9	1.0	1.5	1.6	0.9	0.7
Net result before amortization and one-off income and expenses/Turnover <sup>3 4</sup>	7.1	7.8	6.5	7.2	7.4	6.6	5.0	4.5	5.6	5.0

1 The comparative figures for 2018 have been restated due to discontinued operations.

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

3 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 2010 up to 2013 have not been restated.

4 Before one-off income and expenses. The one-off income and expenses in 2019 mainly concern restructuring and acquisition costs of € 18.3 million and impairment losses of € 5.0 million. The one-off income and expenses in 2018 were restructuring and acquisition costs of € 4.2 million, impairments of € 1.5 million and a release of provisions for earn out and put options of € 0.5 million.

In millions of euros

	2019	2018 <sup>1</sup>	2017 <sup>2</sup>	2016	2015	2014	2013	2012	2011	2010
<b>Consolidated balance sheet</b>										
Intangible non-current assets	596	544	392	395	400	352	349	343	204	168
Tangible non-current assets <sup>3</sup>	231	246	229	215	196	176	199	195	171	157
Right-of-use assets	81									
Financial non-current assets	52	31	28	46	34	28	30	31	23	19
<b>Total non-current assets</b>	<b>960</b>	<b>821</b>	<b>649</b>	<b>656</b>	<b>630</b>	<b>556</b>	<b>578</b>	<b>569</b>	<b>398</b>	<b>344</b>
Inventories	239	267	219	207	194	202	185	197	165	138
Receivables	295	356	327	295	248	288	234	201	187	165
Cash and Cash equivalents	79	83	88	88	179	145	80	66	29	23
<b>Total current assets</b>	<b>613</b>	<b>706</b>	<b>634</b>	<b>590</b>	<b>621</b>	<b>635</b>	<b>499</b>	<b>464</b>	<b>381</b>	<b>326</b>
Assets held for sale	39					3		7	7	7
<b>Total assets</b>	<b>1,612</b>	<b>1,527</b>	<b>1,283</b>	<b>1,246</b>	<b>1,251</b>	<b>1,194</b>	<b>1,077</b>	<b>1,040</b>	<b>786</b>	<b>677</b>
Shareholders' equity <sup>3</sup>	705	647	594	574	521	483	378	364	356	317
Non-controlling interests	0	1	9	9	9	17	61	60	2	2
<b>Group Equity</b>	<b>705</b>	<b>648</b>	<b>603</b>	<b>583</b>	<b>530</b>	<b>500</b>	<b>439</b>	<b>424</b>	<b>358</b>	<b>319</b>
Provisions <sup>3</sup>	97	86	69	74	71	68	112	105	75	54
Non-current interest-bearing loans and borrowings	416	239	187	214	223	259	259	202	124	55
Current interest-bearing loans and borrowings	58	171	57	52	126	59	15	60	4	32
Financial liabilities	9	5	15	23	27	14				
Other current liabilities	314	378	352	300	274	294	252	249	225	217
Liabilities directly associated with assets held for sale	13									
<b>Total equity and liabilities</b>	<b>1,612</b>	<b>1,527</b>	<b>1,283</b>	<b>1,246</b>	<b>1,251</b>	<b>1,194</b>	<b>1,077</b>	<b>1,040</b>	<b>786</b>	<b>677</b>

**Other information** in euros (unless stated otherwise)

	2019	2018 <sup>1</sup>	2017 <sup>2</sup>	2016	2015	2014	2013	2012	2011	2010
Solvency (in %)	44	42	47	47	42	42	41	41	46	47
Investments in tangible non-current assets	32	42	41	46	38	34	19	25	22	21
Depreciations of tangible non-current assets	29	28	24	23	23	20	19	17	15	14
Cash flow from operating activities	182	127	160	103	182	95	79	75	47	55
Number of shares outstanding and held by third parties at year end (x 1,000)	41,999	42,003	42,045	42,161	41,724	41,400	37,985	37,658	37,284	36,885
Net result per ordinary share of € 0.25	2.72	2.58	2.05	2.04	2.07	2.14	0.98	0.76	1.44	1.10
Net profit before amortization and one-off income and expenses from continued operations attributable to shareholders	2.51	2.72	2.27	2.25	2.40	2.23	1.48	1.27	1.63	1.21
Dividend per share	1.50	1.40	1.20	1.10	1.10	1.00	0.75	0.65	0.75	0.61
Highest share price	55.05	60.15	56.68	38.14	40.50	27.18	26.40	20.86	23.80	19.61
Lowest share price	38.82	38.36	36.45	28.47	25.35	22.13	18.55	15.41	13.24	12.52
Share price at year-end	49.90	40.70	52.93	37.59	37.44	26.36	25.40	19.50	16.95	19.61

<sup>1</sup> The comparative figures for 2018 have been restated due to discontinued operations.

<sup>2</sup> The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 'Revenue from contracts with customers'.

<sup>3</sup> After restatement as a result of change in accounting principles for land and buildings and prior period restatements (see Accounting Principles) for the years 2014 up to 2016. The years 2010 up to 2013 have not been restated.

This is a summary of the Annual Report 2019.

The full Annual Report is available in Dutch and English and can be downloaded from the website of TKH: [www.tkhgroup.com](http://www.tkhgroup.com).

The Annual Report and summarized financial statements in English are a translation of the official Dutch version. In the event of differences and/or inconsistencies, the official Dutch Annual Report 2019 will take precedence.

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For actual information about TKH Group and our sustainability developments please visit our website: [www.tkhgroup.com](http://www.tkhgroup.com).

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