TKH Group the solution provider

**Press release**

TKH Group N.V. (TKH)

# Higher turnover but lower result in the first half of 2019

## Strong turnover and profit growth expected in the second half

**Financial highlights**[1]

- Turnover rises by 3.5% to € 753.2 million – organic growth +0.1%.
- Turnover was pressured by a low investment level at consumer electronics producers and lower number of larger projects.
- EBITA declines by 8.8% to € 77.6 million due to higher costs in preparation for turnover growth in the second half of the year.
- Net profit before amortization and one-off income and expenses attributable to shareholders down by 16.6% to € 45.9 million.

**Strategic highlights**

- Introduction of 'Simplify & Accelerate' program with focus on further value creation.
- Acquisitions of innovative technology companies ParkEyes and Commend AG (both April).
- Agreement reached on divestment of majority of industrial connectivity activities, now reported as 'discontinued operations'.
- Good progress with integration of vision and security companies.

**Outlook**

- Organic increase of order book per 30 June 2019 by 13.0% compared with 31 December 2018; offers good perspective for strong growth in turnover and profit in the second half of the year.
- Outlook full year 2019: Net profit from continued operations before amortization and one-off income and expenses attributable to shareholders of between € 106 and € 112 million (2018: € 110.3 million).

**Key figures**

| (in mln. € unless otherwise stated) | H1 2019 | H1 2018 | Change in % |
|---|---|---|---|
| Turnover[1] | 753.2 | 728.0 | +3.5% |
| EBITA[1] | 77.6 | 85.1 | -8.8% |
| Net profit before amortization and one-off income and expenses attributable to shareholders [1,2] | 45.9 | 55.0 | -16.6% |
| Net profit | 42.8 | 54.9 | -22.0% |
| Net earnings per ordinary share attributable to shareholders (in €) | 1.02 | 1.30 | -21.8% |
| Net earnings per ordinary share before amortization and one-off income and expenses attributable to shareholders (in €) [1,2] | 1.09 | 1.31 | |
| ROS[1] | 10.3% | 11.7% | |
| ROCE | 18.7% | 20.8% | |

1 In line with IFRS the figures over the first half of 2019 in this press release are presented based on 'continued operations'. This concerns the figures excluding the divested industrial connectivity activities ('discontinued operations'). For more details about this divestment, reference is made to 'discontinued operations', which is included after the financial statements. The comparable figures in the profit and loss account and cash flow statement over the first half of 2018 have been restated in this press release.

2 For a more detailed specification, please see "Overview of alternative performance criteria", which you will find after the financial statements.

Alexander van der Lof, CEO of technology company TKH: *"In the past period, TKH took a number of significant initial steps in the execution of its 'Simplify & Accelerate' program. The envisaged divestment of the majority of its industrial connectivity activities and the acquisition of companies with innovative vision technology will intensify TKH's technology focus on hardware in combination with software and artificial intelligence. In addition, TKH has made progress in the integration of activities enabling the company to make even better use of economies of scale. With the cost level in the first half year, TKH anticipated on the expected growth in the second half year. Furthermore, the cost level was higher due to integration costs which were implemented in line with the 'Simplify & Accelerate' program. This had a dampening effect on the result. Based on the higher order book and a number of projects in the pipeline we expect to increase both turnover and result compared with the first half of the year."*

## Financial developments in the first half

Turnover increased by 3.5% to € 753.2 million in the first half of 2019 (H1 2018: € 728.0 million). Turnover increased organically by 0.1%. Lower raw materials prices had a negative impact of 0.3% on turnover, while on average stronger foreign currencies compared with the euro had a positive translation effect of 0.5% on turnover. Acquisitions accounted for a 3.2% increase in turnover. Telecom Solutions and Industrial Solutions both recorded an organic growth in turnover. Building Solutions saw a slight decline.

The gross margin increased slightly to 47.4% (H1 2018: 47.2%).

Operating costs increased by 8.1% when compared with the first half of 2018. The operating costs of the acquired companies resulted in a 4.8% increase in costs, while currency exchange rates had a positive impact of 0.7%. As a percentage of turnover, operating costs increased to 37.1% in the first half of 2019, from 35.5% in the first half of 2018. This increase was largely due to higher operating costs levels at TKH's production plants, driven by the expansion of production capacity in the course of 2018 and preparations for the growth expected in the second half of this year. Depreciations amounted to € 22.3 million and were € 9.7 million higher than the level seen in the first half of 2018. This was largely related to the depreciation of rights of use assets due to the implementation of IFRS 16 Leases as of 1 January 2019.

The operating result before amortization of intangible assets and one-off income and expenses (EBITA) fell by 8.8% to € 77.6 million in the first half of 2019, from € 85.1 million in the first half of 2018. At Telecom Solutions, EBITA increased by 1.6%. Building Solutions and Industrial Solutions recorded a decline of 15.5% and 4.2% respectively.

The ROS declined to 10.3% in the first half of 2019 (H1 2018: 11.7%).

Amortization costs increased by € 5.6 million due to acquisitions and the higher investments in R&D in recent years.

The financial result fell by € 2.1 million. Interest expenses rose by € 1.2 million, largely due to the application of IFRS 16. This was offset by a more favorable currency exchange impact of € 0.5 million. The result from other associates fell by € 1.4 million, due to the lower volumes and prices of preforms at the associate, preform producer Shin-Etsu in China.

With 23.0% the tax rate was equal to the first half year of 2018.

Net profit from continued operations before amortization and one-off income and expenses attributable to shareholders declined by 16.6% to € 45.9 million (H1 2018: € 55.0 million). Net profit decreased by 22.0% to € 42.8 million (H1 2018: € 54.9 million).

TKH's net bank debts, calculated in accordance with the bank covenant, increased by € 79.7 million compared with year-end 2018 to stand at € 406.3 million. This increase was related to the payment of dividends, the acquisition of ParkEyes and Commend AG, investments and higher working capital. Working capital as a percentage of turnover increased to 16.5% (mid-2018: 16.4%). The net debt/EBITDA ratio stood at 1.9, which meant that TKH was operating well within the financial ratio agreed with its banks. Solvency stood at 36.9% (H1 2018: 43.1%).

The total number of employees with a permanent contract (FTEs), excluding the discontinued industrial connectivity activities, stood at 5,950 at end-June 2019 (mid-2018: 5,518 FTEs). In addition, TKH had a total of 415 temporary employees as per 30 June 2019 (mid-2018: 527).

## Developments per solutions segment

### Telecom Solutions

*Telecom Solutions encompasses the key technologies connectivity, vision & security and mission critical communication. TKH develops, produces and supplies systems ranging from basic outdoor infrastructure for telecom and CATV networks through to indoor home networking applications. The focus of the business is on the delivery of completely worry-free systems for its clients, thanks to the system guarantees it provides. 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.*

**Key figures**

| (in mln.) | H1 2019 | H1 2018 | Change in % |
|---|---|---|---|
| Turnover | 102.8 | 99.6 | +3.2% |
| EBITA | 16.0 | 15.8 | +1.6% |
| ROS | 15.6% | 15.8% | |

Turnover in the Telecom Solutions segment increased by 3.2% to € 102.8 million. Currency exchange rates had a negative impact of 0.1%. On balance, turnover increased organically by 3.3%.

EBITA was up by 1.6% at € 16.0 million. The ROS decreased slightly to 15.6% in the first half of 2019 (H1 2018: 15.8%).

**Fibre network systems - *optical fibre, optical fibre cables, connectivity systems and components, active peripherals – turnover share 8.8%***

Turnover increased organically by 4.0%. The growth slowdown in China was more than offset by the growth in turnover in fibre network systems in Europe. Due to the higher share of the connectivity portfolio in the product mix, TKH was able to improve the gross margin, despite the price pressure in the Chinese market. The expansion of the optical fibre production capacity is on schedule. The extra capacity will be available in the second half of 2019.

**Indoor telecom & Copper networks - *home networking systems, broadband connectivity, IPTV software solutions, copper cable, connectivity systems and components, active peripherals – turnover share 4.8%***

Turnover increased organically by 2.0% and was largely realized in the broadband connectivity portfolio for the Benelux and Germany.

## Building Solutions

*Building Solutions connects the core technologies vision & security, mission critical communications and connectivity in comprehensive solutions for security and communications applications in and around buildings, in medical applications, as well as for inspection, quality, product and process control systems. In addition to this, Building Solutions focuses 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.*

**Key figures**

| **(in mln.)** | **H1 2019** | **H1 2018** | **Change in %** |
|---|---|---|---|
| Turnover | 364.8 | 346.4 | +5.3% |
| EBITA | 29.1 | 34.4 | -15.5% |
| ROS | 8.0% | 9.9% | |

Turnover in the Building Solutions segment increased by 5.3% to € 364.8 million. Lower raw materials prices had a negative impact of 0.4% on turnover. Currency exchange rates had a positive impact of 0.8%. Acquisitions accounted for 6.8% of the turnover, although ParkEyes and Commend AG still made a very limited contribution in the first half of the year. On balance, turnover declined organically by 1.9% in the first half of the year. This decline was mainly accounted for by Machine Vision due to lower investments by producers of consumer electronics, and a lower number of lager projects in some other segments.

EBITA fell by 15.5% to € 29.1 million, largely due to high cost levels in anticipation of the expected strong increase in activity levels in the second half of the year. As a result, the ROS declined to 8.0% in the first half of 2019 (H1 2018: 9.9%).

**Vision & Security systems – *vision technology based on 2D and 3D camera sensor technology and 3D laser technology, CCTV systems, video/audio analysis and detection, intercom, access control and registration, central control room integration, healthcare systems – turnover share 25.9%***

Turnover increased by 5.3%. Organically the turnover decreased by 9.1%. Machine Vision was affected by a reluctance to invest among producers of consumer electronics. This reluctance was also notable in other sectors in terms of shifts of projects. Thanks to TKH's earlier investments in innovations and positioning in growth markets, such as the market for solar panels and batteries, turnover improved in the course of the first half. TKH initiated measures to reduce the operating costs of its Machine Vision activities through the realization of cost efficiencies by integrating the 2D vision activities following the acquisitions made in the past period. This resulted in additional costs.

Turnover for larger projects reduced in Parking. TKH took a significant step with the acquisition of ParkEyes. The technology of ParkEyes is complementary to the technology of TKH, which now also gives TKH a broad portfolio for smaller to medium-sized parking garages.

TKH is making good progress in the integration of its security-related businesses. These activities will be combined in TKH Security and marketed under that brand.

Lakesight Technologies made a good contribution to growth in the Tunnel & Infra segment. The roll-out of our vision-based traffic management solutions in the US market gained traction.

**Connectivity systems – *specialty cable (systems) for marine, rail, infrastructure, wind energy, as well as installation and energy cable for niche markets, structured cabling systems and connectivity systems for contactless energy and data distribution - turnover share 22.6%***

Turnover increased organically by 6.3%. The increased need to invest in energy networks from network companies had a positive impact on the demand for power cable systems. TKH also recorded growth in turnover from data cable systems.

Marine & Offshore recorded a decline in turnover due to lower turnover from subsea cable systems. This was due to the fact that TKH started to focus fully on the acquisition of new contracts as of the fourth quarter of 2018. However, TKH did record turnover growth in cable systems for the marine industry.

In the vertical growth market Tunnel & Infra, TKH recorded solid growth by increasing its market share in airfield ground lighting (AGL) systems. We saw continued growth in the demand for our innovative CEDD technology for AGL, which integrates various TKH technologies and competencies, and the positive outlook of continued growth was confirmed by a sharp increase in our quotation portfolio.

## Industrial Solutions

*Industrial Solutions develops, produces and delivers integrated systems for the production of car and truck tires, as well as specialty cable systems. TKH's know-how in the automation of production processes and improvements in the reliability of production systems gives the company the differentiating potential it needs to respond to the increasing desire to outsource the construction of production systems or modules in a number of specialized industrial sectors, such as tire manufacturing, robotics, and the medical and machine building industries.*

**Key figures**

| (in mln.) | H1 2019 | H1 2018 [1)] | Change in % |
|---|---|---|---|
| Turnover | 285.6 | 281.9 | +1.3% |
| EBITA | 42.0 | 43.8 | -4.2% |
| ROS | 14.7% | 15.5% | |

[1)] The comparable figures for 2018 have been adjusted as a result of the discontinued industrial connectivity activities.

Turnover in the Industrial Solutions segment increased by 1.3% to € 285.6 million. On average lower raw materials prices had a negative impact of 0.1% on turnover. Turnover increased organically by 1.4%.

EBITA fell by 4.2% to € 42.0 million due to lower production capacity utilization within connectivity and by higher costs for a number of innovation projects. The ROS consequently fell to 14.7% in the first half of 2019, from 15.5% in the first half of 2018.

**Manufacturing systems – *advanced tire manufacturing production systems for the car and truck tire manufacturing industries, can washers, testing equipment, product handling systems for the medical industry and machine operating systems, specialty cable systems and modules for the medical, robotics, automotive and machine building industries – turnover share 37.9%***

The decision was taken to divest the majority of the industrial connectivity activities because they were insufficiently aligned with the progressive technology strategy and introduced further focus on the vertical growth markets. This ultimately led to the agreement with Torqx Capital

Partners on 16 July 2019. The remaining connectivity activities are limited in size and have therefore been integrated in the manufacturing systems sub-segment.

The demand for specialty cables and cable systems weakened in the automotive and robotics industries. This was partly offset by growth in the medical industry (Care).

Turnover in Tire Building was higher, while the order book also increased further. The share of the top five tire manufacturers in order intake was at a high level, as was the share of MILEXX (truck tire manufacturing systems), for which there is a lot of interest in the market. The development of UNIXX (new tire-building platform) is progressing well, but the completion of delivery did result in extra costs in the first half of the year and some of these will continue into the third quarter.

## Outlook

Barring unforeseen circumstances, TKH expects the following developments per business segment in the second half of 2019.

Telecom Solutions
At Telecom Solutions, we expect the demand for fibre optic networks to remain high in Europe. Thanks to its strong market positions in Europe, TKH will benefit from this demand. In addition, the capacity expansions we have initiated will become available in the second half of 2019. We expect turnover and result to improve slightly compared with the first half of the year.

Building Solutions
At Building Solutions, turnover will develop positively in the second half of 2019. The order book and order intake are at a healthy level for both connectivity and vision & security and the outlook for potential orders is generally positive. On balance, we expect turnover and especially result to be significantly higher than in the first half of this year.

Industrial Solutions
At Industrial Solutions, we expect to see a slight decline in turnover and result, despite the increase in the order book. We are seeing the geographical reallocation of investments in several projects in the tire building industry outside the top five tire manufacturers, which will result in shifts of some projects to 2020. At the same time, this is expected to a good starting point for 2020.

Barring unforeseen circumstances, on balance TKH expects a net profit from continued operations, before amortization and one-off income and expenses attributable to shareholders of between € 106 million and € 112 million for the full year 2019 (2018: € 110.3 million), with which a strong increase in result in the second half of the year is expected.

Haaksbergen, 13 August 2019

Executive Board

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## Financial calendar

| | |
|---|---|
| 6 March 2020 | Publication annual results 2019 |
| 7 May 2020 | General Meeting of Shareholders |
| 11 August 2020 | Publication interim results 2020 |

## Profile

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

Through a combination of technologies, TKH offers superior solutions that support to 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. Employing 6,533 people, TKH achieved a turnover of € 1.6 billion in 2018.

# Consolidated profit and loss account

| in thousands of euros | 1st half year 2019 | 1st half year 2019 | 1st half year 2018 | 1st half year 2018 |
|---|---|---|---|---|
| **Total turnover** | | **753,212** | | **727,959** |
| | | | | |
| Raw materials, consumables, trade products and subcontracted work | 395,920 | | 384,195 | |
| Personnel expenses | 191,995 | | 178,692 | |
| Other operating expenses | 65,480 | | 67,422 | |
| Depreciation | 22,253 | | 12,574 | |
| Amortization | 24,148 | | 18,531 | |
| Impairments | 70 | | 387 | |
| **Total operating expenses** | | **699,866** | | **661,801** |
| | | | | |
| **Operating result** | | **53,346** | | **66,158** |
| | | | | |
| Financial income | | 445 | | 700 |
| Financial expenses | | -4,460 | | -3,525 |
| Exchange differences | | -479 | | -956 |
| Share in result of associates | | 215 | | 1,635 |
| Fair value changes of financial liability for squeeze-out, earn-out and put options of shareholders of non-controlling interests | | -106 | | -98 |
| **Result before tax** | | **48,961** | | **63,914** |
| | | | | |
| Tax on profit | | 11,262 | | 14,690 |
| **Net result for the period from continued operations** | | **37,699** | | **49,224** |
| | | | | |
| Result after tax for the period from discontinued operations | | 5,150 | | 5,694 |
| **Net result** | | **42,849** | | **54,918** |
| | | | | |
| Attributable to: | | | | |
| Shareholders of the company | | 42,812 | | 54,815 |
| Non-controlling interests | | 37 | | 103 |
| | | **42,849** | | **54,918** |
| | | | | |
| **Earnings per share attributable to shareholders** | | | | |
| Weighted average number of (depositary receipts of) shares (x 1,000) | | 41,946 | | 42,016 |
| Weighted average number of (depositary receipts of) shares diluted (x 1,000) | | 42,097 | | 42,347 |
| Ordinary earnings per share (in €) | | 1.02 | | 1.30 |
| Diluted earnings per share (in €) | | 1.02 | | 1.29 |
| | | | | |
| **Earnings per share attributable to shareholders from continued operations** | | | | |
| Ordinary earnings per share (in €) continued operations | | 0.90 | | 1.17 |
| Diluted earnings per share (in €), continued operations | | 0.90 | | 1.16 |
| Ordinary earnings per share before amortization and one-off income and expenses from continued operations (in €) | | 1.09 | | 1.31 |

## Consolidated statement of comprehensive income

| in thousands of euros | 1st half year 2019 | | 1st half year 2018 | |
|---|---|---|---|---|
| Net result | | **42,849** | | 54,918 |
| **Items that may be reclassified subsequently to profit or loss (net of tax)** | | | | |
| Currency translation differences | 882 | | 2,483 | |
| Effective part of changes in fair value of cash flow hedges (after tax) | 688 | | -4,627 | |
| **Other comprehensive income (net of tax)** | | **1,570** | | **-2,144** |
| **Comprehensive income for the period (net of tax)** | | **44,419** | | **52,774** |
| **Attributable to:** | | | | |
| Shareholders of the company | | 44,364 | | 52,671 |
| Non-controlling interests | | 55 | | 103 |
| **Total comprehensive income for the period (net of tax)** | | **44,419** | | **52,774** |

# Consolidated balance sheet

| in thousands of euros | | 30-06-2019 | | 31-12-2018 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Intangible non-current assets | 545,525 | | 544,098 | |
| Tangible non-current assets | 241,277 | | 245,392 | |
| Tangible right-of-use assets | 74,349 | | 0 | |
| Investment property | 251 | | 251 | |
| Other associates | 12,294 | | 12,047 | |
| Receivables | 2,005 | | 2,007 | |
| Deferred tax assets | 17,984 | | 17,104 | |
| **Total non-current assets** | | **893,685** | | **820,899** |
| | | | | |
| **Current assets** | | | | |
| Inventories | 253,150 | | 254,963 | |
| Receivables | 236,170 | | 223,473 | |
| Contract assets | 147,253 | | 140,135 | |
| Contract costs | 2,158 | | 3,555 | |
| Current income tax | 818 | | 1,081 | |
| Cash and cash equivalents | 74,330 | | 83,180 | |
| **Total current assets** | | **713,879** | | **706,387** |
| | | | | |
| Assets held for sale | | 93,948 | | 0 |
| **Total assets** | | **1,701,512** | | **1,527,286** |
| | | | | |
| **Equity and liabilities** | | | | |
| **Group Equity** | | | | |
| Shareholders' equity | 625,831 | | 646,459 | |
| Non-controlling interests | 1,235 | | 1,190 | |
| **Total group equity** | | **627,066** | | **647,649** |
| | | | | |
| **Non-current liabilities** | | | | |
| Non-current liabilities | 399,795 | | 238,537 | |
| Deferred tax liabilities | 63,366 | | 60,398 | |
| Retirement benefit obligation | 5,325 | | 7,984 | |
| Financial liabilities | 3,585 | | 588 | |
| Provisions | 5,462 | | 5,217 | |
| **Total non-current liabilities** | | **477,533** | | **312,724** |
| | | | | |
| **Current liabilities** | | | | |
| Borrowings | 158,371 | | 170,569 | |
| Trade payables and other payables | 302,311 | | 314,613 | |
| Contract liabilities | 69,229 | | 57,032 | |
| Current income tax liabilities | 5,937 | | 6,924 | |
| Financial liabilities | 3,268 | | 4,831 | |
| Provisions | 13,767 | | 12,944 | |
| **Total current liabilities** | | **552,883** | | **566,913** |
| | | | | |
| Liabilities directly associated with assets held for sale | | 44,030 | | 0 |
| **Total equity and liabilities** | | **1,701,512** | | **1,527,286** |

## Consolidated cash flow statement

| in thousands of euros | 1st half year 2019 | 1st half year 2018 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Operating result from continued activities | 53,346 | 66,158 |
| Operating result from discontinued activities | 7,189 | 7,764 |
| Depreciation, amortization and impairment | 48,166 | 32,603 |
| Share and option schemes not resulting in a cash flow | 770 | 1,927 |
| Result on disposals | -139 | -151 |
| Changes in provisions | 1,582 | -496 |
| Changes in working capital | -39,032 | -85,930 |
| **Cash flow from operations** | **71,882** | **21,875** |
| Interest received | 508 | 638 |
| Interest paid | -4,837 | -3,526 |
| Income taxes paid | -11,906 | -15,836 |
| **Net cash flow from operating activities (A)** | **55,647** | **3,151** |
| **Cash flow from investing activities** | | |
| Dividends received from non-consolidated associates | | 107 |
| Repayments on loans | 971 | 764 |
| Purchases of tangible non-current assets | -17,933 | -18,507 |
| Disposals of tangible non-current assets | 302 | 358 |
| Acquisition of subsidiaries less cash and cash equivalents acquired | -18,362 | -670 |
| Investments in intangible non-current assets | -19,431 | -16,929 |
| Divestments in intangible non-current assets | 41 | |
| **Net cash flow from investing activities (B)** | **-54,412** | **-34,877** |
| **Cash flow from financing activities** | | |
| Dividends paid | -59,120 | -51,498 |
| Settlement of financial liabilities regarding put options of non-controlling interests, earn-out and squeeze-out | -1,672 | -165 |
| Acquisition of non-controlling interests | -10 | -9,000 |
| Purchased shares for share and option schemes | -12,396 | -13,458 |
| Sold shares for share and option schemes | 5,754 | 5,625 |
| Payment of lease liabilities | -8,422 | |
| Proceeds from long-term debts | 95,528 | 92,613 |
| (Repayments)/proceeds from other long-term debts | -121 | |
| Change in borrowings | -22,325 | 16,959 |
| **Net cash flow from financing activities (C)** | **-2,784** | **41,076** |
| **Net increase/(decrease) in cash and cash equivalents (A+B+C)** | **-1,549** | **9,350** |
| Exchange differences | -387 | 284 |
| **Change in cash and cash equivalents** | **-1,936** | **9,634** |
| Cash and cash equivalents at 1 January | 60,905 | 45,713 |
| **Cash and cash equivalents at 30 June** | **58,969** | **55,347** |

| in thousands of euros | 1st half year 2019 | 1st half year 2018 |
|---|---|---|
| Cash and bank balances as included in the cash flow statement | 58,969 | 55,347 |
| Cash at companies assets held for sale | -3,680 | |
| Cash and bank balances in cash and interest pools | 19,041 | 43,213 |
| **Cash and bank balances** | **74,330** | **98,560** |

## Consolidated statement of changes in group equity

| in thousands of euros | Total shareholders' equity | Non-controlling interests | Total group equity |
|---|---|---|---|
| **Balance at 1 January 2018 before IFRS 9 restatement** | **594,357** | **8,440** | **602,797** |
| IFRS 9 Restatement | **-812** | | **-812** |
| **Balance at 1 January 2018 after IFRS 9 restatement** | **593,545** | **8,440** | **601,985** |
| | | | |
| Net result | 54,815 | 103 | 54,918 |
| Total other comprehensive income | -2,141 | -3 | -2,144 |
| **Total comprehensive income** | **52,674** | **100** | **52,774** |
| | | | |
| Dividends | -50,434 | | -50,434 |
| Dividends to shareholders of non-controlling interests | -1,054 | -10 | -1,064 |
| Acquisition of non-controlling interests | 7,346 | -7,346 | 0 |
| Share and option schemes | 1,927 | | 1,927 |
| Purchased shares for share and option schemes | -13,458 | | -13,458 |
| Sold shares for share and option schemes | 5,625 | | 5,625 |
| **Balance at 30 June 2018** | **596,171** | **1,184** | **597,355** |
| | | | |
| **Balance at 1 January 2019** | **646,459** | **1,190** | **647,649** |
| | | | |
| Net result | 42,812 | 37 | 42,849 |
| Total other comprehensive income | 1,552 | 18 | 1,570 |
| **Total comprehensive income** | **44,364** | **55** | **44,419** |
| | | | |
| Dividends | -58,772 | | -58,772 |
| Dividends to shareholders of non-controlling interests | -348 | | -348 |
| Acquisition of non-controlling interests | | -10 | -10 |
| Share and option schemes | 770 | | 770 |
| Purchased shares for share and option schemes | -12,396 | | -12,396 |
| Sold shares for share and option schemes | 5,754 | | 5,754 |
| **Balance at 30 June 2019** | **625,831** | **1,235** | **627,066** |

## Notes to the interim financial report

### 1. Accounting principles for financial reporting

The accounting policies for the valuation of assets and liabilities and determination of the result (hereafter 'valuation principles') are the same as the accounting principles applied for the consolidated financial statements 2018, with the exception of the new or amended standards and interpretations described hereafter. Annual accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Section 2: 362 sub 9 of the Dutch Civil Code (Dutch Civil Code).

The interim financial report has been prepared in accordance with IAS 34 Interim Financial Reporting. It does not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements 2018 of the group.

### 2. Implemented new or changed standards and interpretations

A change in accounting policies in 2019 is the application of the new standard IFRS 16 *Leases*. This standard introduces a lease accounting concept where right-of-use assets and payment liabilities of lease contracts are included in the balance sheet. Lease obligations are based on the present value of remaining lease payments (adjusted for the effects of prepayments, accruals and provisions).

TKH has implemented IFRS 16 with the modified retrospective approach. The comparative figures have not been restated, and changes have been processed in the opening balance of 2019. TKH has applied for the transition option to measure the initial value of the right-of-use asset at an amount equal to the lease liability. For this reason, the implementation will not result in a equity impact on 1 January 2019.

TKH applies for a number of recognition exemptions and practical expedients. IFRS 16 will not be applied on intangible assets. In addition, the lessee accounting model is not applied to leases with a duration of less than a year or a low value. Service costs for lease objects are separated from the lease contracts and not included in the right-of-use asset and lease liabilities valuation.

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 |
|---|---|---|---|
| **Assets** | | | |
| Total non-current assets | 820,899 | 86,691 | 907,590 |
| Total current assets | 706,387 | | 706,387 |
| **Total assets** | **1,527,286** | **86,691** | **1,613,977** |
| | | | |
| **Equity and liabilities** | | | |
| Total group equity | 647,649 | | 647,649 |
| Total non-current liabilities | 312,724 | 74,112 | 386,836 |
| Total current liabilities | 566,913 | 12,579 | 579,492 |
| **Total equity and liabilities** | **1,527,286** | **86,691** | **1,613,977** |

The impact of IFRS 16 on the consolidated balance sheet as at 30 June 2019 is as follows:

| in thousands of euros | 30-06-2019 excluding IFRS 16 | IFRS 16 restatement | 30-06-2019 including IFRS 16 |
|---|---|---|---|
| **Assets** | | | |
| Total non-current assets | 819,336 | 74,349 | 893,685 |
| Total current assets | 713,879 | | 713,879 |
| Assets held for sale | 88,641 | 5,307 | 93,948 |
| **Total assets** | **1,621,856** | **79,656** | **1,701,512** |
| | | | |
| **Equity and liabilities** | | | |
| Total group equity | 627,360 | -294 | 627,066 |
| Total non-current liabilities | 413,186 | 64,347 | 477,533 |
| Total current liabilities | 542,633 | 10,250 | 552,883 |
| | | | |
| Liabilities directly associated with assets held for sale | 38,677 | 5,353 | 44,030 |
| **Total equity and liabilities** | **1,621,856** | **79,656** | **1,701,512** |

The presentation the consolidated profit and loss account also changes, because the lease costs that were previously included in the other operating expenses, are replaced by depreciation and interest expenses. The net result changes due to the interest discounting effect. The sum of depreciation and interest expense in 2019 are higher than lease costs under the old method. The effect of this on the net result however is not material.

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

| in thousands of euros | H1 2019 excluding IFRS 16 | IFRS 16 restatement | H1 2019 including IFRS 16 |
|---|---|---|---|
| **Total turnover** | **753,212** | | **753,212** |
| | | | |
| Raw materials, consumables, trade products and subcontracted work | 395,920 | | 395,920 |
| Personnel expenses | 191,995 | | 191,995 |
| Other operating expenses | 74,247 | -8,767 | 65,480 |
| Depreciation | 14,197 | 8,056 | 22,253 |
| Amortization | 24,148 | | 24,148 |
| Impairments | 70 | | 70 |
| **Total operating expenses** | **700,577** | **-711** | **699,866** |
| | | | |
| **Operating result** | **52,635** | **711** | **53,346** |
| Financial income and expenses | -3,426 | -959 | -4,385 |
| **Result before tax** | **49,209** | **-248** | **48,961** |
| Tax on profit | -11,216 | -46 | -11,262 |
| **Net result for the period from continued operations** | **37,993** | **-294** | **37,699** |

The impact of IFRS 16 on the consolidated cash flow statement of the first half year 2019 is as follows:

| in thousands of euros | H1 2019 excluding IFRS 16 | IFRS 16 restatement | H1 2019 including IFRS 16 |
|---|---|---|---|
| Cash flow from operating activities | 47,225 | 8,422 | 55,647 |
| Cash flow from investing activities | -54,412 | | -54,412 |
| Cash flow from financing activities | 5,638 | -8,422 | -2,784 |
| **Net increase/(decrease) in cash and cash equivalents** | **-1,549** | | **-1,549** |

TKH has agreed with the banking group that the IFRS 16 changes will not have any impact on the bank covenant during the term of the current financing.

## 3. Judgments

In preparing the consolidated interim financial statements, management has made judgments, estimates and assumptions. These judgments, estimates and assumptions affect the reported amounts of assets and liabilities, revenues and expenses and disclosed contingent assets and liabilities at the date of the interim financial statements. The actual outcome can vary from these judgments, estimates and assumptions. The key sources used for judgments, estimates and assumptions were the same as those that applied to the consolidated financial statements as per 31 December 2018.

## 4. Statutory capital

The number of outstanding (depositary receipts of) shares as per 31 December 2018 amounted to 42,006,707. Due to the exercise of options rights and share schemes, a balance of 82,317 (depositary receipts of) shares were purchased in the first half of 2019. As a result, the number of (depositary receipts of) shares outstanding with third parties as per 30 June 2019 was 41,924,390.

## 5. Dividend

At the General Meeting of Shareholders 2019 the dividend over 2018 was declared at € 1.40 per (depositary receipts of) ordinary share. The dividend on the priority shares was declared at € 0.05 per share. The total amount in dividends paid in the first half of 2019 was € 58,772,000 and this amount was charged to the other reserves (H1 2018: € 50,434,000).

## 6. Segmented information

| | Telecom Solutions | | Building Solutions | | Industrial Solutions | | Not attributable | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| in thousands of euros | H1 2019 | H1 2018 | H1 2019 | H1 2018 | H1 2019 | H1 2018 | H1 2019 | H1 2018 | H1 2019 | H1 2018 |
| **Total turnover** | **102,831** | **99,645** | **364,786** | **346,430** | **285,595** | **281,884** | | | **753,212** | **727,959** |
| EBITA | 16,037 | 15,777 | 29,103 | 34,426 | 41,956 | 43,813 | -9,532 | -8,940 | 77,564 | 85,076 |
| *ROS* | *15.6%* | *15.8%* | *8.0%* | *9.9%* | *14.7%* | *15.5%* | | | *10.3%* | *11.7%* |
| Amortization | -524 | -567 | -18,974 | -13,784 | -4,640 | -4,168 | -10 | -12 | -24,148 | -18,531 |
| Impairments | | | -19 | -34 | -51 | -353 | | | -70 | -387 |
| **Operating result** | **15,513** | **15,210** | **10,110** | **20,608** | **37,265** | **39,292** | **-9,542** | **-8,952** | **53,346** | **66,158** |

## 7. 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 | 30-06-2019 | 31-12-2018 |
|---|---|---|
| Unsatisfied performance obligations | 463,681 | 403,597 |

## 8. Overview of net profit definitions

| in thousands of euros (unless stated otherwise) | 1st half year 2019 | 1st half year 2018 |
|---|---|---|
| Net profit attributable to the shareholders of the company | 42,812 | 54,815 |
| Net profit attributable to non-controlling interests | 37 | 103 |
| **Net profit** | **42,849** | **54,918** |
| | | |
| Amortization of intangible non-current assets from acquisitions | 11,135 | 7,518 |
| Taxes on amortization | -3,067 | -2,028 |
| Impairments | 70 | 387 |
| Fair value changes of financial liability for squeeze-out, earn-out and put options of shareholders of non-controlling interests | 106 | 98 |
| Tax impact on impairments and one-off expenses and benefits | -18 | -97 |
| Result after tax for the period from discontinued operations | -5,150 | -5,694 |
| **Profit before amortization and one-off income and expenses from continued operations** | **45,925** | **55,102** |
| Less: Non-controlling interests | -37 | -103 |
| **Profit before amortization and one-off income and expenses from continued operations attributable to shareholders of the company** | **45,888** | **54,999** |

## 9. Acquisitions

On 11 April 2019, TKH acquired 100% of the shares in Commend AG, with offices in the Zurich and Geneva (Switzerland) districts. Commend AG is the value added reseller in Switzerland that sells mission critical communication systems of the Commend Group that was acquired by TKH in 2015 with it headquarters in Austria. With 24 employees, Commend AG realizes an annual turnover of about € 8 million. The activities of Commend AG will be part of TKH's sub-segment vision & security systems, within the business segment Building Solutions.

On 12 April 2019, TKH acquired 100% of the shares in ParkEyes. ParkEyes is based in Malaga (Spain). ParkEyes is a technology leader in the field of image-based parking facility solutions based on Artificial Intelligence. The technologies of ParkEyes are complementary to TKH's existing technologies and parking solutions. By using the TKH network and the strong positioning of TKH in North America, Europe and Australia, ParkEyes is expected to be able to accelerate the growth and expansion of its market position. With 41 employees (FTE), ParkEyes realizes an annual turnover of approximately € 6 million. The activities will be part of TKH's sub-segment vision & security systems, within the business segment Building Solutions.

The aggregated purchase price, net asset valuation and preliminary fair value adjustments are as follows:

| in thousands of euros | Book value | Adjustments | Fair value |
|---|---|---|---|
| **Acquired net assets** | **3,462** | **9,684** | **13,146** |
| Goodwill paid | | | 9,554 |
| **Purchase price** | | | **22,700** |
| Purchase price still due | | | -3,000 |
| Cash and cash equivalents acquired | | | -1,338 |
| **Purchase price paid** | | | **18,362** |

## 10. Discontinued operations

The decision was taken to divest the majority of the industrial connectivity activities, because they do not sufficiently align with the group strategy. This eventually resulted into an agreement on 16 July 2019 with Torqx Capital Partners. The main subsidiaries that will be divested are Jobarco BV, Pantaflex BV and Capable BV (the Netherlands), TKD Kabel GmbH and Schrade Kabel & Elektrotechnik GmbH (Germany), TKH Kabeltechniek Sp. Z.o.o. (Poland) and KC Industrie Srl (Italy).

The assets and liabilities of the activities that are held for sale are separately presented in the balance sheet of 30 June 2019, and the net result of the discontinued activities of the first half year 2019 is presented as result of discontinued operations. The comparative figures of the first half year 2018 are accordingly restated in the profit and loss account. The same applies to the segment information included in this half year report. The intercompany deliveries between the TKH companies and the industrial connectivity activities have not been eliminated, because it is expected that the trade relationships will be continued after divestment.

The activities will be sold to a newly founded holding entity and are based on an enterprise value of € 113 million. Subsequently TKH will acquire about 44% share in the divested group for an amount of € 16.4 million. The result on the divestment transaction will be included in the second half year 2019 result. The book profit on sale is dependent of the closing date and the year-to-date results by then, and is estimated to be at least € 30 million.

The results of the discontinued operations in the past half years were as follows:

| in thousands of euros | H1 2019 | H1 2018 |
|---|---|---|
| Turnover | 91,871 | 93,203 |
| Intercompany deliveries from and to continuing activities | 7,680 | 8,536 |
| External turnover | 84,191 | 84,667 |
| Total operating expenses | 77,002 | 76,903 |
| Financial result | -279 | -149 |
| Result before tax | 6,910 | 7,615 |
| Tax on profit | 1,760 | 1,921 |
| Net result | 5,150 | 5,694 |

The cash flows of the discontinued operations in the past half years were as follows:

| in thousands of euros | H1 2019 | H1 2018 |
|---|---|---|
| Cash flow from operating activities | 3,411 | -162 |
| Cash flow from investing activities | -559 | -991 |
| Cash flow from financing activities | -4,740 | 2,140 |
| | -1,888 | 987 |

The assets and liabilities of the discontinued operations are separately presented in TKH's consolidated balance sheet under "Assets held for sale" and "Liabilities associated with the assets held for sale". These items comprise of the following elements:

| in thousands of euros | | 30-06-2019 |
|---|---|---|
| **Assets classified as held for sale** | | |
| **Non-current assets** | | |
| Intangible non-current assets | 17,000 | |
| Tangible non-current assets | 6,904 | |
| Tangible right-of-use assets | 5,307 | |
| Receivables | 120 | |
| Deferred tax assets | 687 | |
| **Total non-current assets** | | **30,018** |
| | | |
| **Current assets** | | |
| Inventories | 36,123 | |
| Receivables | 23,111 | |
| Contract assets | 988 | |
| Current income tax | 28 | |
| Cash and cash equivalents | 3,680 | |
| **Total current assets** | | **63,930** |
| | | |
| **Total assets classified as held for sale** | | **93,948** |
| | | |
| **Liabilities classified as held for sale** | | |
| **Non-current liabilities** | | |
| Non-current liabilities | 4,507 | |
| Deferred tax liabilities | 387 | |
| Retirement benefit obligation | 2,783 | |
| Provisions | 74 | |
| **Total non-current liabilities** | | **7,751** |
| | | |
| **Current liabilities** | | |
| Borrowings | 1,589 | |
| Trade payables and other payables | 33,386 | |
| Current income tax liabilities | 1,275 | |
| Provisions | 29 | |
| **Total current liabilities** | | **36,279** |
| | | |
| **Total liabilities classified as held for sale** | | **44,030** |

## 11. Contingent liabilities

As of 2019, rental and lease obligations that were presented as contingent liabilities in the consolidated financial statements 2018, are included in the lease liabilities on the balance sheet at their (discounted) value in accordance with IFRS 16. Exceptions are short term leases and leases with low value.

The contingent liabilities which are not reflected in the balance sheet, as reported in the consolidated financial statements for 2018, have not essentially changed in the first half 2019.

## 12. Events after balance sheet date

On 16 July 2019, TKH has entered into an agreement with Torqx about the sale of industrial connectivity activities. Further notes to this divestment are included before.

On 31 July 2019, TKH announced that it has reached agreement on the acquisition of 100% of the shares in SVS-Vistek GmbH ("SVS-Vistek"), a vision technology company providing innovative high-end technologies for imaging systems, located in Seefeld (Germany). SVS-Vistek primarily serves the industrial markets, offering machine vision solutions for inspection, measurement and process control and fulfils demanding requirements of a variety of end markets, including flat panel display, semiconductor, electronics, automotive and intelligent traffic systems. With 60 employees, SVS-Vistek realizes an annual turnover of about € 20 million. The activities of SVS-Vistek will be part of TKH's sub-segment vision & security systems, within the business segment Building Solutions. The acquisition of SVS-Vistek is expected to be closed in the third quarter of 2019. The acquisition will contribute to the earnings per share of TKH as of the closing date.

## 13. Risks

In our Annual Report 2018 we have extensively described certain risk categories and risk factors which could have an (adverse) impact on our financial position and results. Per 30 June 2019 the risk categories and risk factors have been reanalyzed and is concluded that these are still applicable.

## 14. Executive Board declaration

This report contains the interim financial report of TKH Group NV. The interim financial report ended 30 June 2019 consists of the condensed consolidated interim financial statements, the interim director's report and Executive Board declaration. The information in this interim financial report is unaudited. The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements of TKH for the year ended 31 December 2018.

The Executive Board hereby declares that to the best of their knowledge, the interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the interim director's report gives a fair review of the information required pursuant to section 5:25d (8)/(9) of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht).

## 15. Signature of interim report

Haaksbergen, 13 August 2019

Executive Board
J.M.A. van der Lof MBA, *chairman*
E.D.H. de Lange MBA
H.J. Voortman Msc

*The figures in the interim financial report have not been audited.*