ANNUAL REPORT 2016

TKH TECHNOLOGIES GUARANTEE EFFICIENCY AND SAFETY

TKH has defined seven vertical growth markets in which an above average growth is expected because of important trends, which lead to a high priority for investment in TKH's core technologies. Thanks to our continuous links with our customers, we are well informed about the latest developments on the market. As a result, we are aware of changes in the market, the needs of our customers, and the demands imposed in providing the perfect solution. Nonetheless, we still go one step further. Based on our technologies and innovative total solutions, we not only guarantee that our customers are successful, but also that they generate a return on their investments.

TKH GROUP ANNUAL REPORT 2016

CONTENTS

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

FOREWORD

The strategic focus within TKH in combination with our R&D efforts has resulted in a further strengthening of the foundations of TKH in 2016. This development has brought the targets set within our vertical growth markets even closer, although this is not directly reflected in the turnover achieved in 2016. Turnover developments and results in the fourth quarter were particularly good, with new quarterly records being set in turnover, results and ROS.

We are positive about the excellent cooperation that we have enjoyed with our customers. This has made it possible to achieve big steps in our market position. Technological developments at TKH strongly contributes to make our customers more efficient and safer and responds to priorities that are important for our customers.

Distinctiveness with our innovations is the driver for TKH to grow and to secure continuity. The value creation of TKH gives a good perspective and it is good to see that shareholders increasingly appreciate our strategy. We will continue on the same path and with the planned increase in R&D expenditures in the coming years, to further expand our leading technology proposition.

In the section of this annual report we explain the relevance of our technology and our solutions for improving the efficiency, safety and security of the processes of our customers. The focus on our four core technologies, our distinguishing capacity and the opportunities available to us within the vertical growth markets will all be discussed in detail.

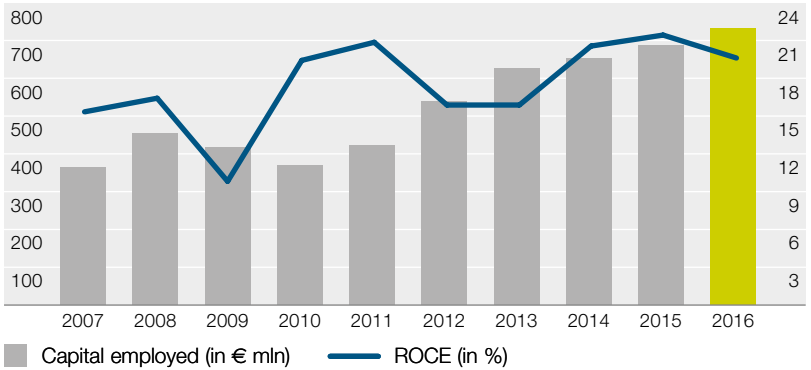
We underline once again the importance of corporate social responsibility (CSR). This aspect of our business will also be discussed in detail in the CSR chapter of this annual report. We believe that our focus on CSR will serve as another distinguishing feature of our organization, and as such will be a key contributing factor in our business continuity and positioning. Finally, also in the field of technology, CSR offers interesting challenges in the form of innovation, and we are pleased to see that our stakeholders are attaching ever greater value to the solid embedding of CSR in the business culture.

We are grateful to our employees, customers, business partners, the Supervisory Board, shareholders and holders of depositary receipts of shares for the trust they have placed in TKH, and the support they offer us in further developing the company and achieving our ambitions.

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

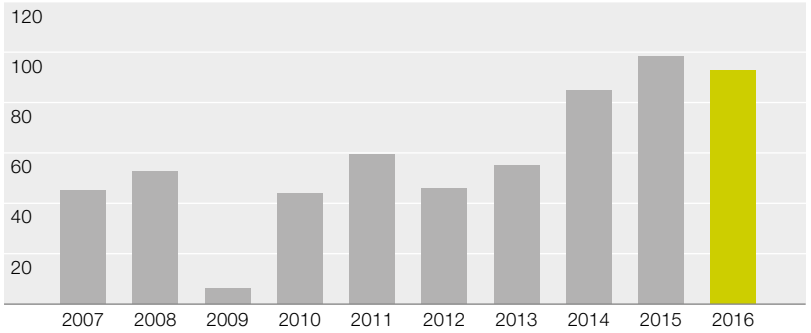
CAPITAL EMPLOYED AND ROCE

in million €



NET PROFIT*

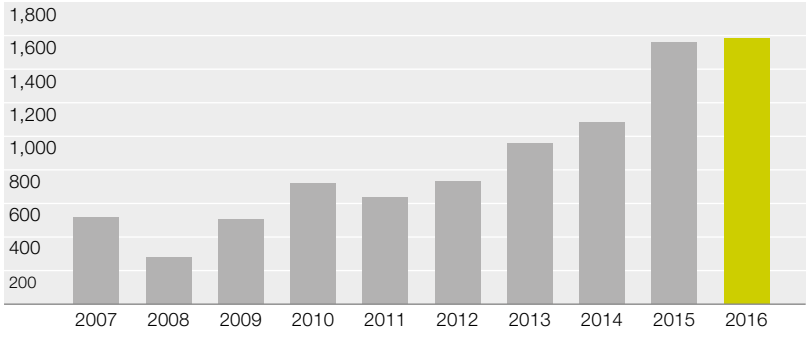
in million €



* Before amortization and one-off income and expenses attributable to shareholders.

MARKET CAPITALIZATION

in million €



KEY FIGURES

	2016	2015
Operations (In € million)		
Turnover	1,341	1,375
EBITA	147	152
Net result	87	88
Net profit before amortization and one-off income and expenses attributable to shareholders [1]	94	100
Cash flow from operating activities	103	182
Net investments [2]	46	38
Depreciation of tangible non-current assets	23	23
Balance sheet (In € million)		
Shareholders' equity [3]	583	529
Liabilities	664	721
Non-current assets	656	630
Current assets	590	620
Ratios (In %)		
Shareholders' equity/total assets	46.7	42.3
Shareholders' equity/non-current assets	88.8	84.0
EBITA as % of the total turnover (ROS)	10.9	11.0
EBITA in % of the average capital invested (ROCE)	20.1	22.1
Net debt/EBITDA ratio	1.0	0.9
Net result as % of the total turnover	7.2	7.4
Return as % of the shareholders' equity [3]	16.5	19.3
Employees (In FTE)		
Number at year-end	5,509	5,387
In euro's (unless otherwise stated)		
Per ordinary share of € 0,25		
Shareholders' equity [4]	13.82	12.70
Net result [5]	2.04	2.07
Net profit before amortization and one-off income and expenses attributable to shareholders [1 5]	2.25	2.40
Cash flow from operating activities [4]	2.45	4.35
Dividend	1.10	1.10
Highest share price during year under review	38.14	40.50
Lowest share price during year under review	28.47	25.35
Share price at year-end	37.59	37.44
Ordinary shares outstanding at year-end (x 1,000)	42,161	41,724

1 Amortization of intangible non-current assets related to acquisitions (after tax).
2 In tangible non-current assets.
3 Including non-controlling interests.
4 Based on outstanding ordinary shares held by third parties at 31 December.
5 Based on weighted average number of outstanding shares at third parties.

HIGHLIGHTS 2016

Turnover

Decline in turnover of 2.5% to € 1,341.0 million, organic turnover decline of 0.8%.

1,341 million euros

EBITA

Decline in EBITA of 3.3% due to lower production volumes at Industrial Solutions in the first nine months.

146.5 million euros

EBITA Q4

Increase in EBITA in Q4 of 15.9%, mainly driven by rise in EBITA Industrial Solutions due to increase in production volume.

+15.9%

Industrial Solutions

Visible recovery in order intake in tire building segment (Industrial Solutions) in Q4.

89.0 million euros

R&D spending

Increase investments and R&D spending to strengthen technology base and further expand TKH's leading position.

50.3 million euros

Net profit

Decline in net profit before amortization and one-off income and expenses attributable to shareholders of 5.6% to € 94.4 million; slightly above the previously communicated bandwidth (€ 88 - € 93 million).

94.4 million euros

ROS / ROCE

Robust ROS of 10.9% and ROCE of 20.1%.

ROS **10.9%**

ROCE **20.1%**

Innovations

The share of innovations in turnover was 19.0%, well above the target of 15%.

19.0%

Dividend

Dividend proposal: € 1.10 per (depository receipt for an) ordinary share, equal to the dividend for 2015.

1.10 euro

PROFILE

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

The four TKH core technologies *-vision & security, communication, connectivity and manufacturing systems-* are linked into total systems and solutions in our three Solutions segments. In this, we strive for far-reaching synergy and co-operation between our subsidiaries.

TKH has a thorough knowledge of processes and technologies, as well as insight into its customers' markets and processes. We offer our customers tailor-made solutions by making optimal use of our specialists' know-how in the fields of R&D, engineering, marketing, process development, project management and logistics.

TKH strives for strong market positions based chiefly on its own innovative core technologies and services. TKH and its subsidiaries operate on a global scale. Its growth is concentrated in Europe, North America and Asia. Employing 5,509 people, TKH achieved a turnover of € 1.3 billion in 2016.

MISSION

TKH aims to be an innovative leading technology (niche)player that, by means of combinations of its four core technologies, offers total solutions which lead to greater efficiency, more comfort and improved safety for its customers. By offering best-in-class solutions, TKH wants to constantly exceed customer expectations.

TKH wants to be an attractive employer and to be a solid investment for shareholders, where a socially responsible way of doing business is placed centrally.

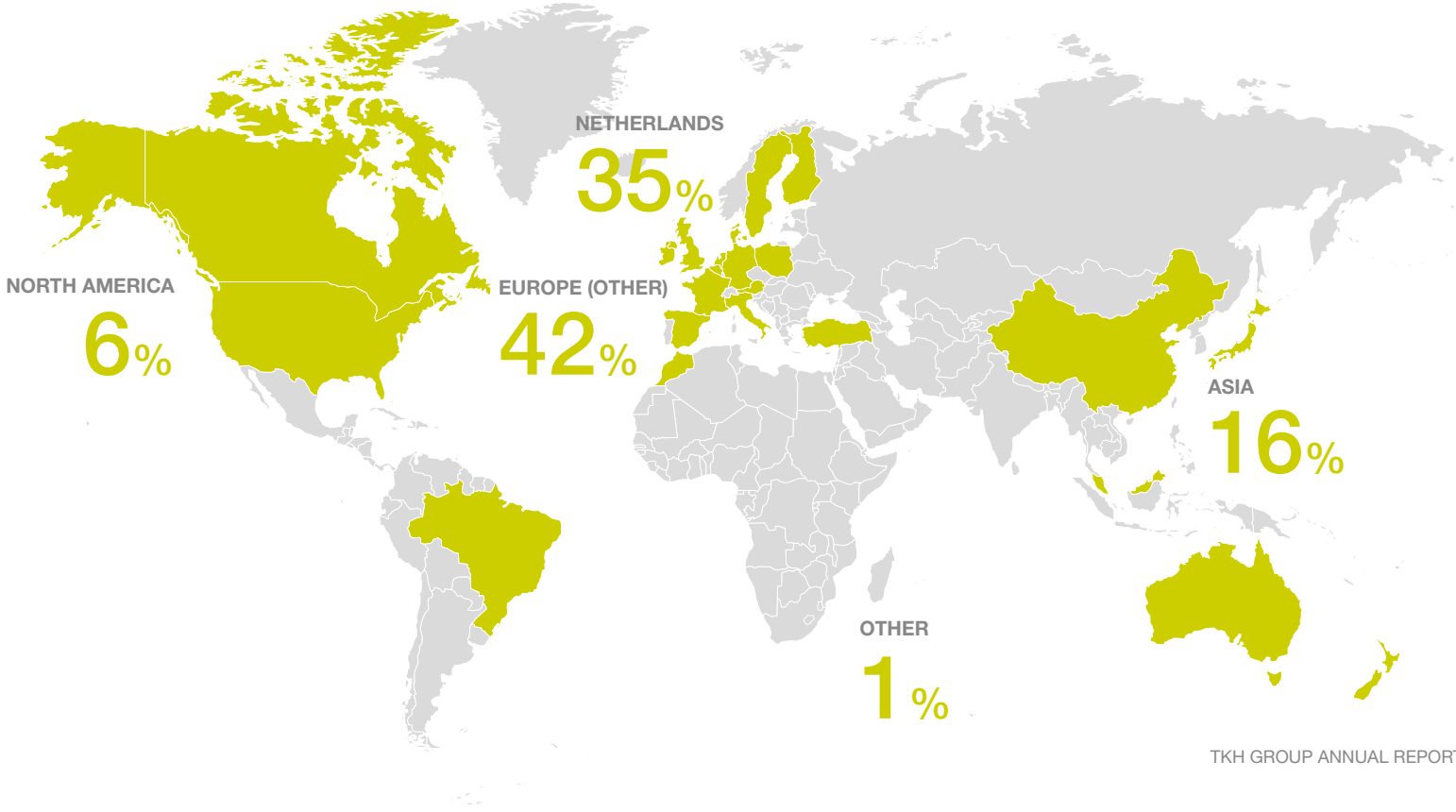
TURNOVER	EBITA	NET PROFIT PER SHARE	NUMBER OF EMPLOYEES
1.3 billion euros	146.5 million euros	2.04 euro	5,509 FTE

THE TKH ORGANIZATION

TKH has a decentralized organizational structure, based on the business segments Telecom, Building and Industrial Solutions. This structure allows TKH to respond quickly and flexibly to opportunities in the market and customer needs. TKH's operations are characterized by short lines of communication, delegation of authority and entrepreneurship.

This structure promotes internal synergy and encourages to share experiences and knowledge. Capacity in the area of system integration, engineering, service and maintenance, logistics, assembly and production is also shared within and among the three business segments. TKH and its subsidiaries operate on a global scale. The growth is concentrated in Europe, North America and Asia.

EMPLOYEES PER REGION (in %)

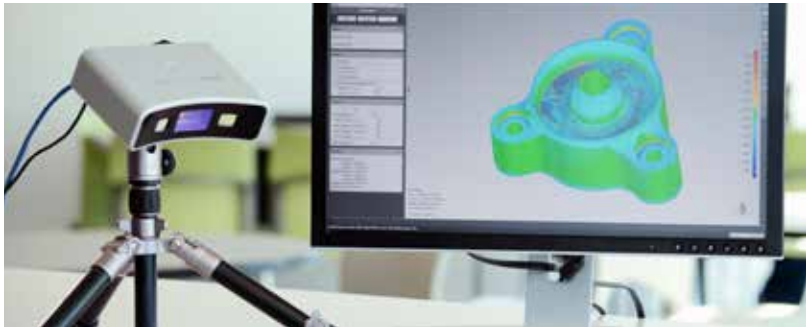


OUR CORE TECHNOLOGIES

The TKH core technologies *-vision & security, communication, connectivity and manufacturing systems-* are interlinked into total systems and solutions. Besides entering into partnerships, we mainly focus on the development of advanced proprietary technologies. We have in-depth knowledge of processes and technologies and have insight in the markets in which our customers operate. This allows us to apply our technologies so that they provide clear added value for our customers.

Through application knowledge we develop tailor-made total solutions for specific vertical (growth) markets. Because the basic technologies can be implemented into multiple applications, a scale is arising what makes it possible to be distinctive and offer highly innovative technologies. Software plays an increasingly important role in the proper integration of the technologies and to make smart technology in the field of analysis and control. We contribute to a safer environment, and taking care for efficient and sustainable processes of our customers.

Vision & security



Communication

Connectivity

Manufacturing systems

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 machine. At TKH, vision technology among other things is used for inspection, quality, product and process control and plays an important role in, for example, medical solutions, industrial automation (tire manufacturing, automotive, robotic and logistics) as well as in science research. Our security technology makes it possible to control and monitor the built environment in the field of safety, comfort and efficiency.

VISION & SECURITY

- Video surveillance
- Safety cameras (explosion proof)
- Video management and analysis
- Guiding & lighting systems
- Access control & registration systems
- Industrial inspection & automation
- Robot control and diagnostics
- Quality control systems

Our communication technology focuses mainly on mission critical situations by means of speaking and listening connections, image communication, security and control. For security in buildings, the communication technology is usually combined with the group's vision and security technology building blocks. By means of our technologies, we promote efficiency, safety and security in, amongst other things, tunnels, multi-storey car parks, intramural and extramural care, airports, football stadiums, schools and financial institutions.

COMMUNICATION

- Mission critical communication
- Intercom systems
- (Personal) alarm systems
- Evacuation systems
- Emergency systems
- Building management & monitoring
- Public address
- Audio systems

With our connectivity technology, we focus on a complete portfolio of connectivity solutions for energy distribution, electrical applications in the construction and infrastructure sectors, as well as optical fibre systems for data and communication networks. In addition, we offer customized specialty cables, connectors and connectivity systems for applications in environments as the industrial, marine & offshore and medical sectors. We develop end produce advanced connectivity technology for contactless energy and data distribution. The transport of energy and data is combined in a single cable system, a base station and contactless connection points. This innovative technology finds its application in airfields.

CONNECTIVITY

- Subsea cable systems
- Marine cable systems
- Optical fibre connectivity
- Contactless energy & data connectivity
- Specialty cable systems for robot, medical & machine building industry
- Drag chain systems
- Multi-Media-Connect
- Connectivity systems for energy, building & infra sector

With its know-how in the field of the automation of production processes and improving the reliability and flexibility of manufacturing systems, TKH stands out in its ability to respond to the growing wishes of a number of specialized industrial sectors using its technologies, such as the tire building, robot and medical industries. The manufacturing systems are based on among others the advanced TKH vision technology. TKH deploys its technologies for the control and monitoring of industrial processes, including complete production systems for the production of car and truck tires, can processing and healthcare industries. Systems engineering and assembly, control and analysis software, as well as connectivity and vision technology, are the basic building blocks for the distinctive manufacturing systems supplied by TKH.

MANUFACTURING SYSTEMS

- Medicine distribution
- Tire assembling systems
- Tire component systems
- Passenger & truck tire systems
- Vision inspection
- Product handling systems
- Production automation
- Scada systems

OUR SOLUTIONS

TKH focuses with its segmentation on the business segments Telecom Solutions, Building Solutions and Industrial Solutions. The TKH core technologies -*vision & security, communication, connectivity and manufacturing systems*- are interlinked into total systems and solutions in the three business segments. We are focusing within the business segments especially on the seven vertical growth markets in which our specialized knowledge and expertise are expressed even better and in which we can achieve an above-average growth and profitability.

Telecom Solutions

Building Solutions

Industrial Solutions

Telecom Solutions 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 complete systems to make things as easy and convenient as possible for our customers, 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.

TKH Telecom Solutions operates in two sub-segments:

Indoor telecom & copper networks

Home networking systems, broadband connectivity, IPTV-software solutions, copper cable, connectivity systems and components, active peripherals.

Fibre network systems

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

TURNOVER SHARE

12.6%

ROS

10.6%

Within Building Solutions, the core technologies vision & security, communication and connectivity are interlinked into total solutions for security and communication applications within and around buildings, in medical applications as well as for inspection, quality, product and process control. In addition, the focus is on efficiency solutions to shorten lead times for the realization of installations inside buildings as well as intelligent video, mission-critical communication, evacuation, access (control) and registration systems for some specific sectors, including healthcare, parking, shipbuilding and offshore, tunnels and airfields.

Building Solutions operates in two sub-segments:

Vision & security systems

Vision technology, systems for CCTV, video/audio analysis and detection, intercom, access control and registration, central control room integration, healthcare systems.

Connectivity systems

Specialty cable (systems) for marine, rail, infrastructure, wind energy as well as installation and energy cable for niche markets, structured cable systems and connectivity systems for contactless energy and data distribution.

TURNOVER SHARE

42.9%

ROS

10.9%

Industrial Solutions develops, produces and delivers solutions ranging from specialty cable, plug and play cable systems to integrated systems for the production of car and truck tires. The company's know-how in the automation of production processes and improvements in the efficiency and reliability of production systems gives TKH the differentiating potential 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 building, robotics, medical and machine building industries.

Industrial Solutions operates in two sub-segments:

Connectivity systems

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

Manufacturing systems

Advanced manufacturing systems for car and truck tire industry, can washers, test equipment, product handling systems for the medical industry, machine operating systems.

TURNOVER SHARE

44.5%

ROS

13.3%

OUR SEVEN VERTICAL GROWTH MARKETS

TKH focuses on seven important vertical growth markets -*Fibre Optic Networks, Care, Tunnel & Infra, Parking, Marine & Offshore, Industrial Machine Vision and Tire Building Industry*- in which and above-average growth and profitability can be achieved.

These are markets where we can achieve above-average growth driven by trends that call for high-priority investments in TKH core technologies. Due to our close contact with our customers, we know these markets well and we know what is happening and what the wishes are. The aim in particular is a high return on investment for our customers. In the next three to five years, we expect to achieve turnover growth of € 300 to € 500 million in the seven vertical growth markets.

Fibre Optic Networks

Care

Tunnel & Infra

Parking

TKH develops, produces and delivers a complete fibre optic network that also includes connectors, tubes, sleeves, fibre management systems, security systems, robot systems and other accessories, as well as the fibre optic cables themselves. Plug-and-play installation is possible for all of these so that projects can be completed efficiently and on time. Where needed, we help the customer by offering training courses and provide support during the engineering process, in constructing the networks, and with maintenance.

GROWTH DRIVERS

- Data use through the impact of information and communication technology on the way we live our lives continues to grow and leads to a strong, increasing demand for broadband.
- Internet has become a basic service, like gas, water and electricity.
- Developments such as the 'Internet of Things', 'Industry 4.0' and 'Internet of Vehicles' will require a high (mobile) internet speed - emergence of 5G internet.
- 24-hour availability is becoming more established and accepted.
- Several European countries have announced investment plans for rollout of FttH projects to meet the strong increasing need for bandwidth.

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. The guiding principle here is that security and alarms can be individually geared to the client or resident's care needs. TKH also supplies total solutions in care and nursing homes, care for the disabled, mental healthcare and hospitals. For the pharmaceutical industry, TKH develops fully automated systems for medicine packaging and distribution.

GROWTH DRIVERS

- Life expectancy is continually increasing and healthcare spending will increase strongly due to more and better, but also more expensive care - therefore, the demand for technologies for care solutions is increasing.
- Changing healthcare funding: shifting from the government to the institutions and healthcare insurers.
- Innovations in the field of domotics, diagnostics, e-health and self-testing for prevention and screening, are providing new businesses in the sector.
- Shortage of skilled workers.
- Informal caregivers play an important role and, together with the client and the healthcare professionals, are equal partners - technology support is necessary for the required information exchange.
- The demand for medicines (volume) has been growing as a result of demographic developments, while the cost of care will have to be lowered.
- Increase central task of preparing medicines in a remote location - acceptance of robotics in pharmacy wholesale.

For the tunnel and infrastructure sector, TKH supplies innovative communications and security solutions including integrated image, intercom, public address and CCTV systems and fireproof connectivity systems as well as connectivity systems for contactless energy and data distribution. Our solutions satisfy the high requirements for safety, permitting tunnels, roads and air grounds to be opened safely and at the right time. In addition, we satisfy the strictest project conditions for both design and implementation.

GROWTH DRIVERS

- In Europe, investment in tunnel technology for new and existing tunnel are planned for the next few years.
- Due to strict legislation and regulations in the field of security, ever increasing demands are made on the technical equipment.
- Increasing demand for technologies in order to comply with strict requirements: evacuation - communication - detection - identification - safety.
- Principals are shifting responsibilities to the contractors - formation of alliances between principals and contractor so that parties have a common interest in cost control.
- Availability infrastructure -tunnels, airfields and roads- needs to increase because of less and efficient maintenance.

TKH develops and produces innovative parking systems. These range from self-developed video analytics technology for monitoring car parks and streamlining traffic flow in parking garages to integrated access control, intercom and CCTV systems. Car parks can be managed from any place and at any time. We provide professional project management and support & advice in the design and construction of parking projects.

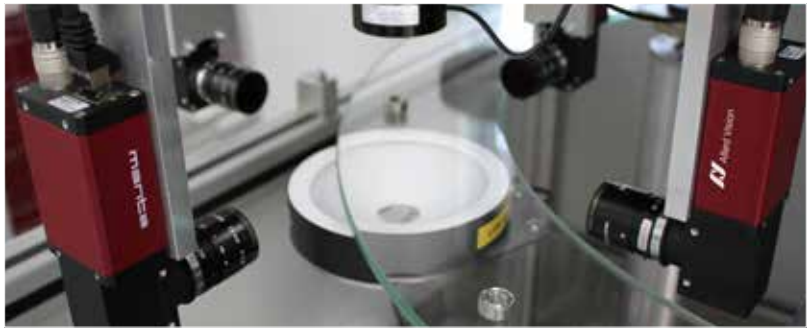
GROWTH DRIVERS

- Revenue from car parks is under pressure due to decline of traffic flow - need to reduce OPEX.
- Demand for providing a visual dashboard with parking information - managers and car park operators can react faster and more efficient to current situations.
- Increase capacity utilization and revenues by means of differentiated parking fee.
- Demand for comfort and convenience for parkers.
- Use of technologies to improve safety, access and payment possibilities.
- Emergence of demand for frictionless parking for an optimal parking experience.

Marine & Offshore

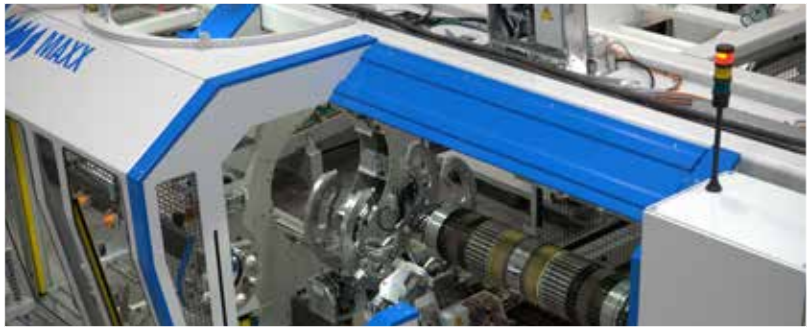
TKH supplies for the marine & offshore industry innovative connectivity systems as well as integrated security and communications systems for use on board of ships and on platforms. Many of our solutions focus on security, safety and efficiency with a high return on investment for the customer.

Industrial Machine Vision



Industrial 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. In Industrial Machine Vision, vision technology is used to monitor, control or adjust industrial processes. We supply to the robot industry, machine building, the medical industry, consumer electronics industry and the automotive industry.

Tire Building Industry



TKH has used its decades of experience to evolve and refine the production technology for tire manufacturing that is essential for producing superior car and truck tires. TKH designs, manufactures, delivers and installs these innovative tire building systems that allow the production of tires with specific characteristics. We consider it a shared challenge to meet the needs of the most demanding customers.

GROWTH DRIVERS

- Large increase global generated power by wind power.
- Demand for larger cargo ships and need for efficient external site management.
- Increase in the building of quality ships, cruise liners and luxury yachts.
- Increase of remote control and secure of unmanned operations on platforms.
- A lot of attention for safety on platforms via special ‘zone’ certification.
- Modification of supply chain due to limited storage capacity on shipyards and platforms and high cost of downtime.
- High demands on system availability under various environmental conditions, such as extreme temperatures, humidity, oil, salt water.

GROWTH DRIVERS

- Demand for vision technology is increasing due to trend towards industrial automation and robotics need.
- Continue demand for more productivity and improvement of high quality of produced products.
- Vision technology is a superior alternative for the inspection of production systems and for detection, inspection and identification that cannot be seen by the human eye.
- Strong increase of new applications in which vision technology will be applied.
- Because of strict regulations to the quality of food and medicines, vision technology offers the solutions because of the 100% traceability and ‘fail/pass’ application.

GROWTH DRIVERS

- High priority of the Tire Building Industry to replace existing technology with an emphasis on high productivity, efficiency, waste reduction, quality improvement and smaller batches.
- The number of types of tires for passenger cars has increased more than tenfold in recent decades. This calls for more flexible production methods.
- The trend towards ever larger tire dimensions and towards safer, better quality tires requires technological developments.
- Local production - innovations have become essential to reduce the working capital requirement in the supply chain of the Tire Building Industry.
- Over 70% of the existing tire building systems are older than 15 years.
- Due to the high prices of raw materials, there is a need for a more efficient use of materials in the production of tires, which asks for high tech manufacturing systems.
- Due to rising labour costs, demands for manufacturing systems with higher productivity and high operator independence - ‘eyes & hands off’ manufacturing.

VALUE CREATION MODEL

In order to show how value is created in the TKH Group, we use the value creation model of the IIRC (International Integrated Reporting Council). This model provides insight into the relationships and capital that we use in carrying out our business activities. We explain which resources (financial, produced, human, intellectual, natural, social & relations) we use to achieve our strategic objectives and which values we add with our core business.

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

By integrating these technologies effectively, we create unique, innovative, total solutions that are suitable for multiple markets. By adding specific application know-how, we have become the specialist in our defined seven vertical growth markets and offer tailor-made solutions, but also, using standard technology platforms, the best possible solutions in terms of Return on Investment (ROI) and efficiency.

The engagement and contribution of all our employees play a decisive role in our value creation model. This model stimulates entrepreneurship and talent development within our group and motivates us to constantly improve our (long-term) value creation.

INPUT

FINANCIAL

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. In addition, we invest by means of acquisitions in companies that fits with our core technologies or strengthen our geographic footprint.

PRODUCED

We have production sites where raw materials and components are processed into (semi-)manufactured and finished products. Our production method is based on LEAN and Six Sigma, among others, and our production companies are ISO 14001 certified. To maximize the ROCE and ensure flexibility of our capacity, the aim is to outsource as much of the capital-intensive production as possible. We aim to retain capital-intensive production capacity in-house where this is necessary for strategic reasons. This applies to the production of specialty cable, subsea cable, optical fibre, and optical fibre cable. Software is an increasingly important part of our product portfolio.

HUMAN

We make use of skilled and talented people with various backgrounds. TKH strives to provide its employees with a safe and inspiring working environment. We offer them training courses and the other resources they need to be effective and to develop their skills. We believe that good primary elements of remuneration and fringe benefits, including a commensurate salary package, are very important.

INTELLECTUAL

TKH has transformed over the years to become a technology company. Via solid R&D road maps, we focus on the development of four core technologies. We apply our expertise to provide innovative solutions with which we respond to the needs of the customer.

NATURAL

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 and around our organization, its impact on the environment and on our reputation. Sustainability in the supply chain is an increasingly important basis for operating sustainably as a company. As purchasing party, TKH enters into active dialogue with its strategic suppliers in order to improve the sustainability of their products and processes. They are thus able to make an important contribution to our sustainability goals.

VALUE CREATION MODEL

SOCIAL & RELATIONSHIPS
We conduct our activities in accordance with 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, with a view to gearing our business activities to these and optimizing them where necessary. We also believe that it is important to make a contribution to society and to invest in it.

INPUT > **BUSINESS ACTIVITIES** > **OUTPUT** > **OUTCOME**

FINANCIAL
Finance position

FINANCIAL
Impact investments, dividends, taxes

MISSION

PRODUCED
In-house and outsourced manufacturing

PRODUCED
High-tech solutions

HUMAN
Employees and other strategic stakeholders

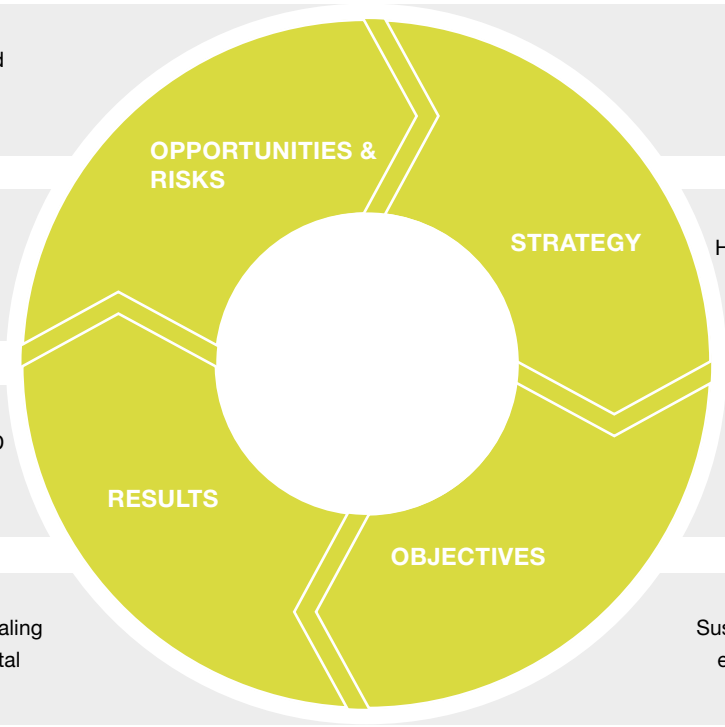
HUMAN
Healthy, safe environment, development opportunities

INTELLECTUAL
Intellectual property/R&D

INTELLECTUAL
Innovations, patents

NATURAL
Use of resources and dealing with general environmental values

NATURAL
Sustainable consumption of energy and raw materials, sustainable environment



GOVERNANCE

SOCIAL & RELATIONS
Networking and partnerships

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

OUTCOME

FINANCIAL
- ROS: 10.9%.
- Net profit per share: € 2.04.
- Dividend pay-out ratio: 53.1% of net profit.
- Market capitalization: € 1.6 billion.
- Debt leverage ratio: 1.0.
- ROCE: 20.1%.

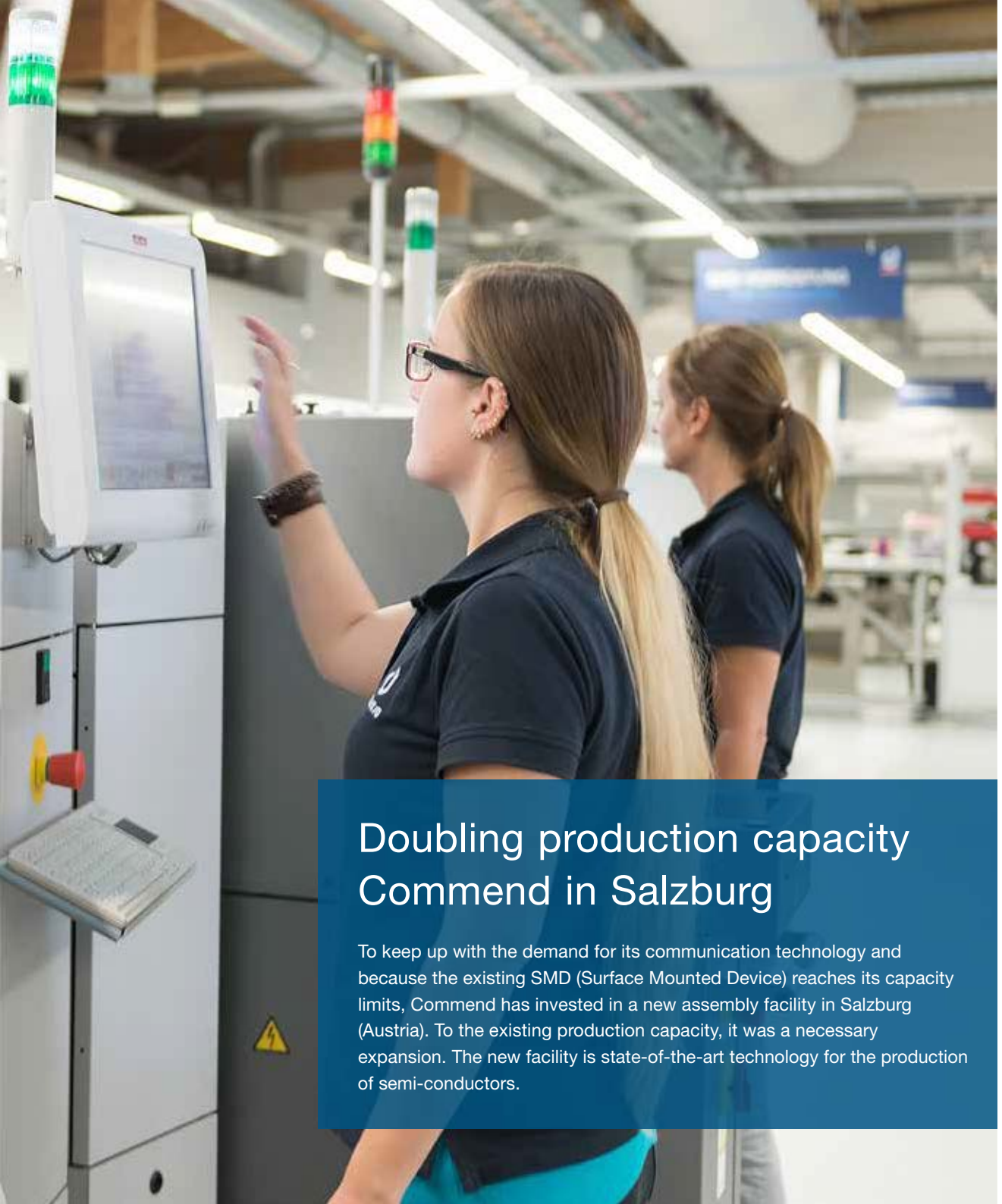
PRODUCED
- Turnover : € 1,341.0 million.
- ISO14001 certification all production companies.

HUMAN
- Staff costs: € 331.4 million.
- Number of training hours: 21 hrs/FTE.
- Employee satisfaction: 7.2.
- Absenteeism: 2.98%.
- Signed Codes of Conduct: 97%.

INTELLECTUAL
- Innovations: 19.0%.
- R&D spending: € 50.3 million.
- Subsidies and tax savings through R&D: € 6.6 million.

NATURAL
- Energy consumption: + 4.1%.
- Waste reduction: 15.0%.
- Recycling: 71.9%.

SOCIAL & RELATIONSHIPS
- Customer satisfaction: 8.0.
- Community investments: 0.4% of net profit before amortization and one-off income and expenses.



Doubling production capacity Commend in Salzburg

To keep up with the demand for its communication technology and because the existing SMD (Surface Mounted Device) reaches its capacity limits, Commend has invested in a new assembly facility in Salzburg (Austria). To the existing production capacity, it was a necessary expansion. The new facility is state-of-the-art technology for the production of semi-conductors.

OUR STAKEHOLDERS

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

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

STAKEHOLDERS DIALOGUE

	RELEVANCE FOR TKH	RELEVANCE FOR THE STAKEHOLDER/ MOST IMPORTANT EXPECTATIONS	INTENDED RESULT OF THE DIALOGUE	MEANS OF COMMUNICATION
Employees	Employees are crucially important for the success of TKH. They are the ambassadors of the business and our most important social capital.	Good employment practices. Development opportunities, good salary and a good package of employee benefits. A safe and healthy working environment.	• Motivating and enthusing our employees. • Increasing their sense of involvement. • Entrepreneurship and development opportunities.	• Internet/intranet. • Staff magazine. • Employee satisfaction survey. • Employee meetings. • Conferences, webinars and seminars. • Performance interviews.
Customers	Buy products and services. Develop sustainable package of products and services by means of cooperation.	Offer products and services for the right price/quality ratio, which meet the demand and where the focus is on the interests of the customer. Good ROI.	• Customer loyalty. • Translating customer needs into products, systems and (total) solutions. • Chain approach.	• Business negotiations. • Internet. • Events, symposia and exhibitions. • Customer satisfaction survey.
Suppliers	Supply of services and products for our business operations.	Fair and good business practices at market rates.	• Sustainable product development. • Chain initiatives.	• Business contacts. • Negotiations. • Code of supply & site visits.
Shareholders	Investment through shareholding in TKH that strengthens our capital position.	Good return on investment with good dividend policy and value creation.	• Communication on (strategic) developments. • Continuation of confidence and involvement.	• Internet. • Financial reports, annual reports. • General meeting of shareholders. • Investor days.
Analysts	On the basis of analysis and research, prepare profiles and ratings on the basis of which the investor can make a selection for his investments.	Transparent communication about developments.	• Optimal image of our company.	• Internet. • Financial reports, annual reports. • IR meetings. • Capital Markets Day. • Reporting.
Banks	Financial services provider enabling TKH, among other things, to realize its growth ambitions.	Creditworthy enterprise that is correctly balancing risks against returns and complies with contractual agreements.	• Communication about (strategic) developments, investments and possible business risks.	• Internet. • Financial reports, annual reports. • Business discussions.
Government bodies	Acting as initiator, facilitator of (chain) projects and driver of sustainable solutions.	Strengthen the economic attractiveness in the region with respect to business location and employment. Chain initiatives with a significant contribution to sustainability.	• Regional and national involvement with mutual interests with respect to continuity.	• Internet. • Network meetings and thematic meetings.
Academic and research institutions	Influx of new talent in order to compensate for a shortage of technical personnel.	Providing a challenging work environment with ample development opportunities. Providing traineeships - gaining work experience.	• Filling job vacancies. • Development opportunities.	• Internet. • Exhibitions and seminars. • Social media.
Organizations of civil society and trade associations (including NGOs)	Possesses an extensive network and knowledge of the positions in the supply chain. Expertise on specific sectors.	Thinking about and initiating partnerships.	• Developing knowledge sharing and supply chain initiatives.	• Internet. • Media coverage and reports. • Annual report.

TRENDS, OPPORTUNITIES & RISKS

Entrepreneurship is inextricably linked to risks, but it also offers opportunities. To identify these opportunities and risks, we produce a SWOT matrix. It gives us insight into our internal and external position on the basis of market, competition and environmental analyses. By means of a comprehensive risk management system it is possible for us to identify significant risks at an early stage and subsequently quickly respond to them. We believe that the effective management of risks and the targeted use of opportunities are essential for the successful execution of our strategy.

Economic / financial

Consumer spending is increasing and the labour market is picking up again. More is being spent on investments in sustainable technology and modern infrastructure. There is also a trend towards more globalization in the value chain. In contrast, there is still reticence and uncertainty about the economic growth in Asia, of which the negative effect on the world economy is difficult to assess. The impact of a sluggish Asian economy on TKH is mainly related to investments in capital goods within the industrial segment, which has implications for global investment. The economic impact of Brexit and divisions within the European Union is also still unclear. Although the volume of turnover in the UK is limited for TKH, we will continue to closely follow the developments.

In the market

Companies must excel in their knowledge of specific customer needs and differentiate themselves with innovative product designs and services. The call for efficiency and the importance of being able to offer integrated total solutions and short lead times is growing and offers competitive advantage. Product life-cycles are becoming increasingly shorter, which also calls for faster and better innovation in order to retain and improve our competitive position. What's more, products are becoming more and more personalized. And as a result, production runs are becoming ever smaller and account is already taken of this in the engineering phase by building modular products. Digitally linking processes from supplier to customer will generate greater efficiency. The geopolitical situation is uncertain. The threat of terrorist attacks has increased further, resulting in a considerable demand for technologies in the field of safety and security.

Intellectual

We are constantly online and many objects are connected to the internet. In the home environment, they together form the 'internet of things'. Consequently, the demand for carefully designed and effectively managed network connections and high-speed wireless networks is growing constantly. 24-hour accessibility has become a matter of course. This results in the need to monitor privacy as much as possible and in an increasing threat of cyber crime. Industry 4.0 is the industrial side of the 'internet of things'. Productivity will be increased through 'smart factories' with intelligent 'zero-defect' processes and new production technologies. These smart factories contribute to more efficient use of energy and raw materials and better interaction between manufacturers, chain partners and customers. By means of vision technology, large amounts of data are generated for an efficient and more precise production process, enabling machines to learn and operate themselves. This leads to a safer environment and more efficient production. Analyses become more reliable and production systems deliver faster and better products. Vision technology also plays a major role in the rapid rise of robotization. With technologies such as augmented reality, mixed reality and virtual reality the possibilities are endless and their first business applications are already beginning to emerge. Examples include the remote performance of maintenance on machines and the virtual training of engineers.

Social and human

The composition and age structure of the working population is changing. As the population grows older, chronic and lifestyle-related diseases will increase. Beside, healthcare costs are rising. Technology and innovations play an important role to meet the demand for healthcare. The extent to which robots and technological developments lead to new jobs or rather a loss of jobs is also examined. Which required knowledge is needed and how can it be acquired. Important know-how is flowing out of companies due to an ageing population and this cannot be adequately replenished due to a shortage of well-trained technical staff. Collaboration between companies and educational institutions is becoming more urgent, as too is the need

for companies to train their own people. Moreover, due to the use of advanced automation, the core of the work is becoming more knowledge-intensive. This imposes immediate demands on the working and thinking level of the employees. In 2020, half of the workforce will consist of 'Millennials' (Generation 'Y'). This generation is used to being reachable the whole day long and to share information with their social networks. Work and private life are becoming integrated into new lifestyles and demand companies to follow suit. In recent years there has been an increasing demand from society for companies to become more socially active due to, for example, a retreating (or reorienting) government.

Sustainability

Resources are becoming depleted due to the high consumption of raw materials. Commodity prices are increasingly volatile due to continuing climate change, further integration of the world economy and the associated global consequences of local events. The Circular Economy, which aims to maximize the re-usability of products and raw materials in order to minimize value destruction, is regarded as an answer to this scarcity. The global demand for energy will increase sharply in the coming decades, while the stocks of fossil fuels are becoming scarcer and harder to extract. This tension between supply and demand leads to considerable price increases and the development of renewable energy generation such as wind power. Moreover, governments are increasingly asking companies to take measures to drastically reduce CO_2 emissions. In the chain, sustainable solutions are being developed by means of partnerships. Technologies play an important role in the approach of sustainability issues, such as in relation to the quality of life, energy saving and safety. Identifying relevant trends enables TKH to pursue its strategic direction and associated objectives. These trends constitute the basis of the external SWOT analysis of opportunities and threats.

SWOT ANALYSIS

STRENGHTS

- Innovative core technologies which can be connected into total solutions, including engineering, service and maintenance.
- Strong positions in defined vertical growth markets by distinguished technologies and high innovation share.
- Efficient R&D organization and high level of R&D investments.
- Protection technology and IP rights by means of patents.
- Benefits of scale through internal cooperation and spread of technologies over different product-market combinations and geographic markets.
- A highly flexible niche player who offers specific solutions for customers.
- Partnerships with suppliers of specific technology components or solutions.
- A good reputation and financial strength.
- highly flexible production capacity, because more than 70% of the capital-intensive production is outsourced.
- Successful acquisition policy and effective integration of acquired companies in the organization.
- An organization structure with local entrepreneurship and innovative strength.
- The quality and commitment of staff.

WEAKNESSES

- Limited global position in some key markets.
- Dependence on government measures in some markets, including care, construction and infrastructure.
- Brand awareness in a number of geographical markets.

OPPORTUNITIES

- Sustained increase in demand for high-quality technological solutions, aimed at efficiency, safety and security.
- Trend among customers towards outsourcing technology.
- Emergence of the 'Internet of Things' and 'Industry 4.0'.
- Robotics trend offers opportunities for vision technology.
- Above average growth possibilities in defined vertical growth markets, both geographically and in market share.
- A large proportion of solutions are still in the early stage of their life cycle.
- The growing share of software in solutions and service component.
- Attractiveness as an employer due to focus on entrepreneurship and development opportunities.
- Attention for corporate social responsibility.

THREATS

- Geopolitical global situation.
- Speed of technological developments.
- Possible new technologies from competitors with more prospects than TKH's technologies.
- Harmonization of niche specifications into standard commodity solutions.
- Scarcity of highly qualified, technical specialists.
- Shortage of raw materials and fluctuating raw material prices and currency rates.
- Strong economic slowdown.
- Financial position of suppliers and customers.
- Risk of cyber crime.

This SWOT analysis implies the following In terms of specific challenges.

Strengths that can be used to seize opportunities.

- The company's financial strength can be used for further investments in technological developments to generate organic growth in the promising market segments in which TKH operates.
- TKH's European positioning, scale and innovations can be used to profit optimally from the possibilities to increase market share on the basis of its distinctive capabilities.

Strengths that can be used to stave off threats.

- By using the company's healthy financial position to develop innovations in an effort to maintain a constant lead with our own technologies and distinctive capabilities it will be possible fend off the competition.
- Spreading activities over different product-market combinations and focus on vertical growth markets will make TKH less vulnerable to an economic slowdown.
- Our good reputation as an attractive employer can be used to recruit talented employees.

TKH can transform the following weaknesses into strengths.

- Global position - increasing presence in several international markets from the defined vertical growth markets.
- Limit dependence on public-sector investments by focusing on defined vertical growth markets that are driven by investments with high returns.
- Build brand awareness by increasing reference projects in markets where brand awareness is limited and aim for an intensive market positioning.

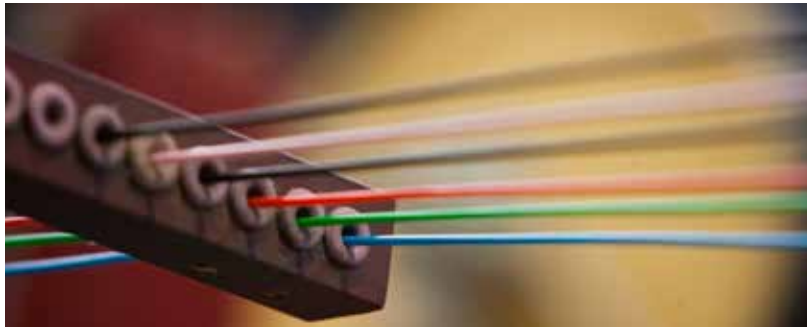
STRATEGY & OBJECTIVES

As part of the strategy process, four priority areas are identified: core technologies & innovation, growth & scale, value creation & financial objectives and sustainability. For each of these priority areas, we have formulated our strategic direction and defined specific objectives in order to flesh out the strategic process.

Core technologies & innovations

Growth & scale

Value creation & financial objectives



Corporate social responsibility (CSR)

Core technologies & innovations

Constant attention to innovation produces an advanced range of products and services that guarantee technologically advanced solutions. With our four core technologies *-vision & security, communication, connectivity and manufacturing systems-* we respond to growth trends and are able to offer total solutions by combining these technologies. The aim is a high return on the investment in our customers. Innovative strength is an important cornerstone for our positioning. Our target is to generate at least 15% of turnover through innovations introduced in the previous two years. An major part of our portfolio is at an early stage of their life cycle. TKH mainly focuses on developing its own core technologies, but also works closely with third parties in the field of development. Whenever TKH works in partnership with third parties it tries to retain ownership of the technology or stipulate that third parties will supply the technology exclusively to TKH in the countries where it operates.

Growth & scale

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

Value creation & financial objectives

TKH aims to achieve above-average annual growth in earnings per share. Within TKH's strategy we therefore make effective use of opportunities for growth and limit (financial) risks. Healthy balance sheet ratios and a strong operating cash flow have a high priority in the development of the company. TKH strives for a solvency ratio of at least 35% and a maximum Net Debt/EBITDA of 2.0. By shifting to activities with greater added value and thus potentially higher margins, together with the growing share of activities showing above-average performance, the bandwidth for the medium-term ROS target has been set at between 11% and 12%. For the ROCE, the medium-term target is a bandwidth of between 20% and 22%. To maximize the ROCE and ensure flexibility of our capacity, the aim is to outsource as much of the capital-intensive production as possible. We aim to retain capital-intensive production capacity in-house where this is necessary for strategic reasons. This applies to the production of specialty cable, optical fibre and optical fibre cable.

Corporate social responsibility (CSR)

Implementing our strategy and achieving our objectives, we are aware of our social responsibilities and obligations towards all the company's stakeholders. In our view sustainable operations can only be achieved if an integrated approach to CSR policy is embedded in the daily operations. In order to optimally guarantee our societal, social and environmental responsibility, we focus on themes that are material for us and our stakeholders, on which our impact is material and over which we can also exercise influence. We take account of the impact of our activities and business operations in four domains: People, Planet, Profit and Positioning. So, we want to contribute to the climate issue through energy reduction programs. Through efficient supply chains we want to create reduction in waste. Being a good employer for our employees and offer them a safe working environment with plenty of opportunities for development.

INNOVATIONS

>15%

EXPECTED GROWTH IN VERTICAL GROWTH MARKETS

300-500

million euros

NET DEBT / EBITDA

<2.0

WASTE REDUCTION

>5%

BUILDING BLOCKS VERTICAL GROWTH MARKETS

Strong foundation for growth in defined vertical growth markets with a focus on 25 growth building blocks.

TKH has defined seven vertical growth markets where it expects above average growth because of trends that lead to a high priority for investment in TKH's core technologies. The next 3 to 5 years, we expect to achieve turnover growth in seven vertical growth markets of € 300 to € 500 million.

To be able to achieve this growth, we have defined action plans on the basis of 25 building blocks. These 25 building blocks are making the foundation to realize the defined growth. It gives us a clear strategic focus and gives us guidance regarding investment plans and the roll-out of market opportunities.

Fibre Optic Networks	Care	Tunnel & Infra	Parking	Marine & Offshore	Industrial Machine Vision	Tire Building Industry
MARKET SHARE GROWTH FRANCE / GERMANY / NORDICS / POLAND	INTERNATIONALIZATION HOMECARE & COMMUNITY PLATFORM	AIRFIELD GROUND LIGHTING-TECHNOLOGY BASED ON CEDD-TECHNOLOGY	DIFFERENTIATION VIA SMART-SENSOR / CCTV TO 'FRICTIONLESS' PARKING	CONNECTIVITY-SOLUTIONS FOR SUBSEA	HIGH MARKET GROWTH 2D-INSPECTION IN COMBINATION WITH INNOVATIONS	MARKET SHARE GROWTH WITHIN TOP 5-TIRE MANUFACTURERS
ROBOT SOLUTIONS FOR PATCHING - SAODF	INTERNATIONALIZATION OF INTEGRATED VISION & SECURITY SOLUTIONS FOR HOSPITALS	INTERNATIONALIZATION OF INTEGRATED VISION & SECURITY SOLUTIONS FOR TUNNELS	INTERNATIONALIZATION OF INTEGRATED VISION & SECURITY SOLUTIONS FOR PARKING GARAGES	INTERNATIONALIZATION OF INTEGRATED VISION & SECURITY SOLUTIONS	HIGH MARKET GROWTH 3D-INSPECTION IN COMBINATION WITH INNOVATIONS	MARKET SHARE GROWTH 'TIRE COMPONENT PREPARATION', TRUCK TIRES & 'LIGHT TRUCK TIRE MANUFACTURING'
SMART SECURITY SOLUTIONS FOR POP'S	BLISTERING-TECHNOLOGY FOR PHARMACY - INDIVION	MARKET SHARE GROWTH BENELUX / NORDICS	MARKET GROWTH AND TKH POSITIONING NORTH-AMERICA / EUROPE / AUSTRALIA / MIDDLE EAST	INTERNATIONALIZATION OF CONNECTIVITY-SOLUTIONS	MARKET SHARE GROWTH NORTH-AMERICA / EUROPE / ASIA	NEW TIRE BUILDING PLATFORM - UNIXX & MILEXX
	DISPENSER-TECHNOLOGY FOR MEDICINES			SPECIAL PORTFOLIO 'MISSION CRITICAL' COMMUNICATION	MEDICAL AND TIRE BUILDING INSPECTION SYSTEMS	INCREASE SHARE IN TURNOVER SERVICE & SPARE PARTS BUSINESS







REPORT OF THE EXECUTIVE BOARD

EXECUTIVE BOARD

J.M.A. (Alexander) van der Lof MBA
(1958), *chairman and CEO*

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

E.D.H. (Elling) de Lange MBA
(1965), *member and CFO*

Elling de Lange MBA 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 within Ballast Nedam. Mr. De Lange is responsible for the business segment Telecom Solutions.

A.E. (Arne) Dehn
(1969), *member*

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

GENERAL DEVELOPMENTS

Despite the fact that 2016 saw a downturn in both turnover and profit as compared to 2015, TKH can still look back on a successful year. The fourth quarter, with record turnover and profit levels, came as solid confirmation that TKH has chosen the correct strategy and focus.

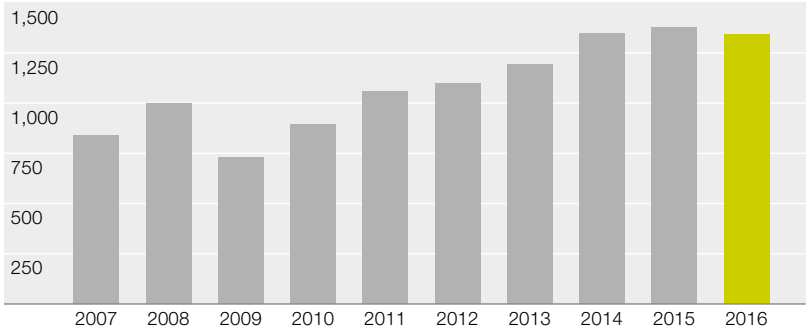
It was clear from early on in the year that China's continuing reluctance to place orders would have an impact on turnover and profit in 2016. Above all the low order intake from China within Industrial Solutions had a negative effect on both turnover and profit. In the second half of the year, the capacity utilization at our factories rose, due to a relatively high level of production as compared with the first six months. During those first six months, many preparations were made for the production and deliveries planned for the second six months, while production levels themselves were still at a lower level. As a result, despite the low order intake, by mid-2016 the order book was relatively high with a good starting position for the level of production in the second half. The major challenge of raising production capacity in the second six months to the desired output, was organized on an efficient way. As a consequence, ROS rose in the fourth quarter to 12.8% (Q4 2015: 11.6%).

Within Building Solutions, the significant downturn in investment levels in the oil and gas industry and the marine sector had a clear effect. By making investments in the international commercial organization, and by successfully matching our innovations with market demand, the growth in market share in the second six months helped compensate for the low level of investments. The order book had grown strongly by the end of the year.

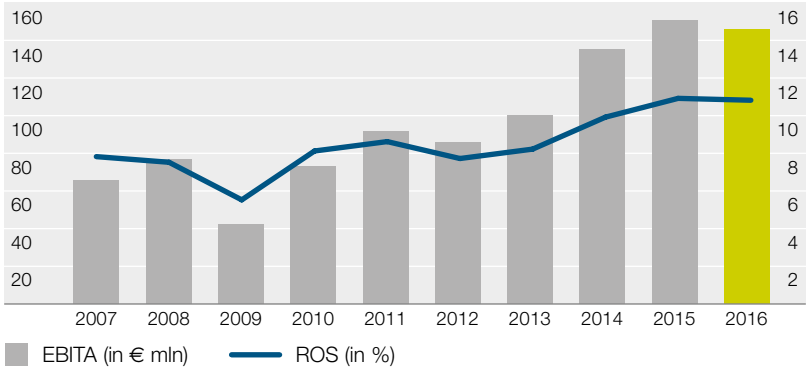
Telecom Solutions succeeded in improving its results. This was mainly thanks to the situation in Asia, where we saw strong growth in the demand for optical fibre systems.

During the first six months of the year, the decision was taken to further increase R&D expenditure. The positive feedback from customers in respect of a number of innovations and the related stimulation to bring forward market introduction dates meant that a number of R&D programs were accelerated. R&D expenditure as a percentage of turnover rose from 3.4% to 3.8%, and in absolute terms from € 46.5 million to € 50.3 million. During the fourth quarter, the R&D expenditure was extensively monitored, and the decision was taken to further raise expenditure levels in 2017, on the basis of the changes and possibilities within a number of our core technologies, including the mission-critical communication and machine vision technology.

TURNOVER
in million €



EBITA AND ROS DEVELOPMENT
in million €



Turnover within the vertical growth markets fell by 3.3% to € 674 million. When the figures for 2015 were published, limited growth was already anticipated, and the expectation was announced that further growth was not expected to materialize until 2018 and beyond. Due to a continuing cautious attitude towards investments, order intake in a number of segments remained below original estimates in the first three quarters. This reluctance to invest was particularly prevalent in China, for the tire building industry, and to a lesser extent in the vertical growth market Machine Vision. In addition, due to a lower level of investment in the oil and gas industry and marine sector, turnover in the vertical growth market Marine & Offshore also fell. On the other hand, growth was achieved in the vertical growth markets Fibre Optic Networks, Parking and Care.

The strategic development and in particular the development of activities within the vertical growth markets received considerable attention in the year under review. The focus on our core technologies and the seven vertical growth markets once again delivered clear added value in our efforts to achieve medium-term growth objectives. It was determined that the potential of all vertical growth markets continues to be positive, above all thanks to the opportunities offered by the innovations currently in the pipeline, and the prospects those innovations offer for expanding market share. The acceleration of the R&D programs led to more output, thereby ensuring that the planned innovations were delivered on time. This already had a positive effect on order intake during the final months of 2016, so that the starting position for growth in 2017 is better than it was in 2016. The share of turnover from the vertical growth markets was higher in the fourth quarter than in the preceding quarters, which translated into a higher ROS, in that fourth quarter.

Realizing the medium-term objective of achieving growth of between € 300 and € 500 million in three to five years is based on the solid foundation of 25 building blocks within the defined seven vertical growth markets. Close monitoring and implementation of these building blocks, sometimes with week by week follow-up by the Executive Board, has meant that solid progress has been achieved. It is also of key importance that the risks have been precisely mapped out, and measures have been taken to limit those risks, and increase the likelihood of success. We can conclude that we are well on course to realize the outlined growth scenarios.

Turnover outside the vertical growth markets fell by 1.7% to € 667 million, mainly due to the fall in raw materials prices. Turnover was also negatively influenced by the planned downscaling of less profitable turnover, in line with the strategic focus. These actions further strengthened the foundations for realizing our ROS and ROCE targets. This turnover is and remains very important, since the same technology platforms are deployed here, as in the seven vertical growth markets. The additional economies of scale we can achieve as a consequence will have a positive effect on margins, thanks to the positive volume effect on cost price per unit.

Above all the process of working together on specific targets and the perception of the value of cooperation in vertical growth markets have made an important contribution to strengthening our market positions. This has led to a further positive impact on the motivation and enthusiasm among our people, which in turn is contributing to the drive to realize our objectives. The success of using disruptive technology to distinguish ourselves on the market is a particularly strong strategic principle that offers us excellent future prospects for value creation.

The international position of TKH is well expressed in the share of turnover outside the Netherlands, at 81% (2015: 81%). Outside the Netherlands, our market share in Europe rose from 43% to 45%, due to a rise in turnover in Germany, the Nordics and in Eastern Europe. The share of turnover in Asia fell from 23% to 20%, due to the already mentioned reluctance to invest in the industrial sector. The turnover share in North America rose from 12% to 13%.

The share of innovations in turnover at TKH, at 19.0%, was once more high, again exceeding our objective that 15% of turnover must be generated by innovations introduced in the previous two years.

Due to advances in the implementation of our plans, we are on track to realize the medium-term ROS and ROCE objectives that were raised at the start of 2016 to respectivily 11-12% and 20-22%. For the whole of 2016, the realized ROS and ROCE levels amounted to respectivily 10.9% and 20.1%.

FINANCIAL DEVELOPMENTS

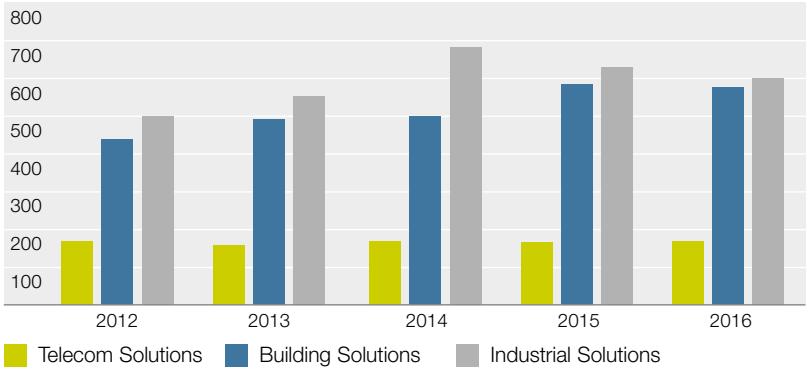
In 2016, turnover declined by € 34.2 million (2.5%) to € 1,341.0 million (2015: € 1,375.2 million). Turnover declined organically by 0.8%. The divestment of Parking & Protection resulted in a 0.4% decline in turnover, while acquisitions accounted for a 0.1% increase in turnover. Lower raw materials prices had a negative impact of 0.9% on turnover. On average weaker foreign currencies vis-à-vis the euro had a negative impact of 0.5% on turnover.

Organic turnover in Industrial Solutions was down 3.7% in 2016, while the fourth quarter showed organic growth of 6.8%. At Telecom Solutions, turnover increased organically by 2.4% in 2016, while Building Solutions recorded organic turnover growth of 1.5%. The contribution from Industrial Solutions to overall turnover in 2016 declined to 44.5% from 45.6% in 2015, while the contribution from Building Solutions increased to 42.9% from 42.3%. Telecom Solutions saw its contribution increase to 12.6%, from 12.1%.

The gross margin rose to 47.1% in 2016, from 46.0% in 2015, thanks to an improved product mix and on average lower raw materials prices. Operating costs were 0.9% higher than in 2015. Operating costs as a percentage of turnover increased to 36.1% in 2016, from 34.9% in 2015. This relative increase was largely due to an increase in R&D spending, in particular at Building Solutions to prepare for the targeted growth in our vertical growth markets, combined with lower turnover levels. R&D spending increased to € 50.3 million in 2016 (2015: € 46.5 million). Depreciations came in at € 22.1 million and were € 0.7 million higher than in 2015, due to the higher level of investments. The operating result before amortization of intangible assets and one-off income and expenses (EBITA) was down 3.3% at € 146.5 million in 2016, from € 151.5 million in 2015. The EBITA at Telecom Solutions was up 13.3%. At Building Solutions, the EBITA was down 3.5% and at Industrial Solutions the EBITA was 6.3% lower. ROS came in lower at 10.9% (2015: 11.0%). Amortization costs increased by € 1.0 million to € 32.6 million in 2016, due primarily to higher R&D spending. In addition, TKH recognized impairments of on balance € 0.2 million.
In 2016, financial expenses declined by € 0.7 million to € 7.5 million. This improvement was due to a lower average outstanding net bank debt. Currency exchange rates had a negative impact of € 0.1 million in 2016, compared to a positive impact of € 0.4 million in 2015. The result from participations came in € 0.3 million higher.

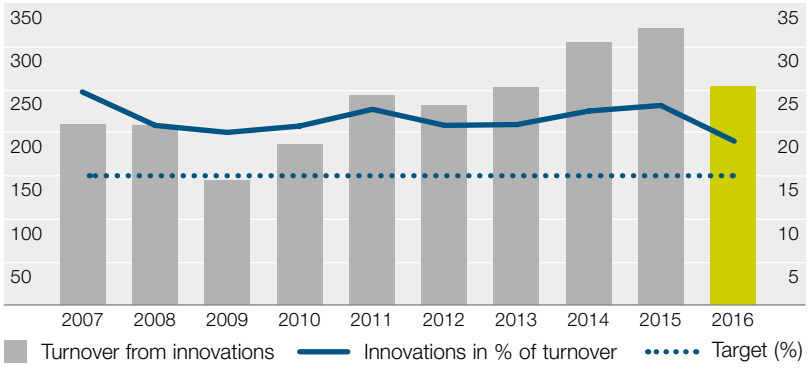
TURNOVER PER SOLUTIONS SEGMENT

in million €



TURNOVER FROM INNOVATIONS

in million € in %



The tax rate declined to 18.4% (2015: 20.6%) on the back of one-off tax income of on balance € 2.6 million, due to the recognition of a deferred tax asset as a result of the valuation of previously unrecognized tax losses. As in previous years, the application of the Dutch innovation box rate had a positive impact on the tax rate.

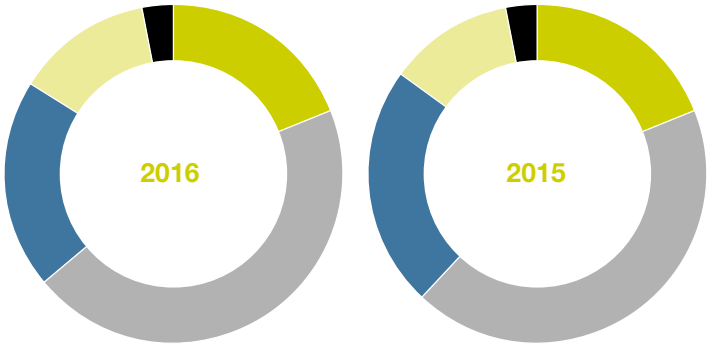
Net profit before amortization and one-off income and expenses attributable to shareholders amounted to € 94.4 million in 2016 (2015: € 99.9 million), a decline of 5.6%. Net result for 2016 fell to € 87.3 million (2015: € 88.3 million). Earnings per share before amortization and one-off income and expenses came in at € 2.25 (2015: € 2.40). Ordinary earnings per share were € 2.04 (2015: € 2.07).

The cash flow from operating activities was € 103.4 million (2015: € 181.6 million). This decline was due to an increase in working capital, while working capital declined in 2015. At year-end 2016, working capital as a percentage of turnover had risen to 13.4% (2015: 11.3%). Net investments in tangible fixed assets were € 45.5 million in 2016 (2015: € 38.5 million). A large proportion of these were investments in production facilities, including an expansion of capacity for the sub-segments vision & security systems, building connectivity systems and manufacturing systems. In addition, we invested € 28.9 million in intangible fixed assets in 2016 (2015: € 25.4 million), largely in R&D, patents, licenses and software. Cash out related to acquisitions came in at € 0.8 million.

Solvency rose to 46.7% in 2016 (2015: 42.2%). The net bank debt calculated in line with the bank covenants stood at € 166.1 million at year-end 2016, up € 5.1 million from year-end 2015. The net debt/EBITDA ratio came in at 1.0. TKH operates well within the ratios agreed with its banks. At the end of 2016 an amended committed credit facility of € 350 million was negotiated with a group of banks, which was formalized in January 2017, with a term of five years and an option for two one-year extensions. The new facility is subject to the same financial covenants as the previous facility in terms of debt leverage, namely a maximum ratio of 3.0. The interest coverage ratio does not apply any more.

TKH had a total of 5,509 employees (FTEs) at year-end 2016 (2015: 5,387). In addition, the company had 439 temporary employees (FTEs) (2015: 441 FTEs). Based on the growth plans, further growth is expected in the coming years.

GEOGRAPHICAL DISTRIBUTION OF TURNOVER in %



	2016	2015
Netherlands	19	19
Europe (other	45	43
Asia	20	23
North America	13	12
Other	3	3

DEVELOPMENTS PER SOLUTIONS SEGMENT

TELECOM SOLUTIONS

Turnover in the Telecom Solutions segment increased by 1.4% to € 168.5 million. Organic turnover growth stood at 2.4%, while currency effects had a negative impact of 1.0% on turnover. The organic growth came from the sub-segment fibre network systems. Demand for optical fibre network systems in the Netherlands and Poland was down, but this was more than offset by growth in Germany and strong demand for optical fibre in China.

EBITA increased by € 2.1 million on the back of higher capacity utilization and efficiency improvements in production. ROS improved to 10.6%, from 9.5%.

Fibre network systems

Turnover in this sub-segment saw organic growth of 7.4%. The decline in demand for copper networks was not yet compensated by the construction of optical fibre networks in the Netherlands. In Poland, a decline in European subsidies had a negative impact on the willingness to invest, while an increase in turnover was recorded in Germany and in China. There was scarcity in the field of optical fibre on the Chinese market resulting in growth with healthy margins. The high capacity utilization and the ensuing efficiency had a positive impact on our result.

Indoor telecom & copper networks

Turnover in this sub-segment fell by 4.0%, largely due to a continued decline in investments in passive components for copper networks and a continued shift in the priority to invest in optical fibre networks. The margin improved on the back of an improved product mix.

KEY FIGURES TELECOM SOLUTIONS
(in € millions, unless otherwise stated)

	2016	2015	Change in %
Turnover	168.5	166.1	+1.4%
EBITA	17.9	15.8	+13.3%
ROS	10.6%	9.5%	

Telecom Solutions

FIBRE NETWORK SYSTEMS

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

TURNOVER SHARE **7.4%**

INDOOR TELECOM & COPPER NETWORKS

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

TURNOVER SHARE **5.2%**

BUILDING SOLUTIONS

Turnover within the Building Solutions segment fell by 1.2% to € 574.9 million. However, the segment booked organic growth of 1.5%. The divestment of Parking & Protection had a negative impact of 1.0% on turnover. Acquisitions had a positive impact on growth of 0.4%. Exchange rate effects had a negative impact of 0.9%. Lower raw materials prices also had a negative impact of 1.2% on turnover. A reluctance to invest resulted in a decline in turnover in China and Poland. In the fourth quarter of 2016 Building Solutions recorded an organic turnover increase of 4.5%, mainly driven by the sub-segment vision & security systems.

EBITA came in 3.5% lower at € 62.4 million. The start-up and development costs, largely for subsea cable systems, airfield ground lighting systems and the new machine vision portfolio, had a negative impact on the results. ROS fell to 10.9% in 2016, from 11.1% in 2015.

Vision & security systems

Organic turnover growth in this sub-segment was 1.8%. TKH recorded a strong organic growth in the vertical growth market for parking technology. The order book stood at a record high ultimo 2016. In the Machine Vision vertical growth market, we realized a number of significant milestones in the development of the 2D and 3D portfolio. The breakthrough in our positioning with a number of large manufacturers of consumer electronics had a positive impact on the turnover as of the fourth quarter of 2016. Organic turnover growth in the sub-segment vision & security systems in the fourth quarter came in at 7.3%, mainly from the vertical growth markets Machine Vision and Parking. We increased R&D spending to further extend the lead we have in the field of our technology and to realize our growth objectives.

Connectivity systems

Organic turnover growth in this sub-segment amounted to 0.9%. Market volume was lower due to a reduction in the number of large-scale projects in the construction and infra sector. Turnover in energy and data cable systems increased. Turnover in the vertical growth market Marine & Offshore declined as a result of the reluctance to invest in the oil and gas sector, which also affected the ship building industry. The higher order book end of 2016 on the back of growth in market share we realized and the focus on the offshore wind industry provides a good perspective for growth. The start-up and development costs for the launch of a new plant for subsea cable systems, as well as the airfield ground lighting systems and associated CEDD technology, had a negative impact on our result. Serial production of subsea cable will commence in the second quarter of 2017. The roll-out of the CEDD technology is scheduled in 2018.

KEY FIGURES BUILDING SOLUTIONS

(in € millions, unless otherwise stated)

	2016	2015	Change in %
Turnover	574.9	581.6	-1.2%
EBITA	62.4	64.6	-3.5%
ROS	10.9%	11.1%	

Building Solutions

VISION & SECURITY SYSTEMS

vision technology, systems for CCTV, video/audio analysis and detection, intercom, access control and registration, central control room integration, care systems

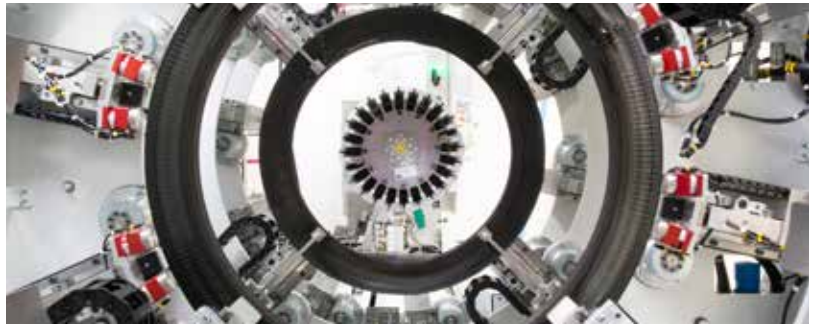
TURNOVER SHARE **26.3%**

CONNECTIVITY SYSTEMS

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

TURNOVER SHARE **16.6%**

INDUSTRIAL SOLUTIONS



Turnover in the Industrial Solutions segment fell by 4.8% to € 597.6 million. Exchange rate effects had a negative impact of 0.1% on turnover. The on average lower raw materials prices led to a 1.0% drop in turnover. Turnover declined organically by 3.7%. The turnover decline was entirely due to the sub-segment manufacturing systems and was related to the previously communicated reduced order intake due to reluctance to invest in China. Turnover and order intake recovered in the fourth quarter. Although order intake in China remains low, the order intake from the top five tire manufacturers increased in the fourth quarter.

EBITA declined by 6.3% across the year, but was up 37.3% in the fourth quarter when compared to the same period of 2015. Effective cost management, improved efficiency and more in-house products meant we were able to limit the decline in ROS. ROS came in at 13.3% in 2016 (2015: 13.5%).

Connectivity systems

Organic turnover growth was 6.2% in this sub-segment. This turnover growth was realized in the medical and robot industries. The investments in R&D, which enable TKH to come up with the most effective response to the trend towards miniaturization and increase the life of cable systems for advanced production systems, are clearly paying off, enabling TKH to capture new market positions. In addition, TKH benefited from a strong increase in demand for robot systems.

Manufacturing systems

This sub-segment saw an organic turnover decline of 9.7%. This was due to the lower order intake and the effect of a relatively large proportion of engineering activities prior to production which were the result of the newly developed technology and a further breakthrough among the top five tire manufacturers. We continued to increase production capacity towards the second half of the year to meet the expected rise in production levels. Turnover recovered in the fourth quarter, with growth of 8.1% compared to the same period of 2015. Lower production volumes in the first half of the year had a negative impact on results.

The reluctance to invest in China is still having a clear impact on the order intake. However, order intake in the fourth quarter did increase to € 89 million on the back of projects previously announced in the tire manufacturing industry outside Asia, plus an increase in order intake among the top five tire manufacturers. The cumulative order intake in 2016 amounted to € 281 million. The order book was well filled end of 2016 and a large number of projects for investments in the tire building industry have already been announced. We therefore expect capacity utilization to be high in the coming quarters. There is considerable market interest in the MILEXX, the new generation of systems for truck tire building. In addition, we booked solid progress with the UNIXX project. We will build a prototype in the course of 2017 and we expect to deliver the prototype to a launching customer in 2018. The start-up of the operations in Poland during 2016 went well and completion of the construction of the new plant for tire building systems in Poland is scheduled for 2017.

KEY FIGURES INDUSTRIAL SOLUTIONS

(in € millions, unless otherwise stated)

	2016	2015	Change in %
Turnover	597.6	627.4	-4.8%
EBITA	79.5	84.8	-6.3%
ROS	13.3%	13.5%	

Industrial Solutions

CONNECTIVITY SYSTEMS

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

TURNOVER SHARE **18.3%**

MANUFACTURING SYSTEMS

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

TURNOVER SHARE **26.2%**

DIVIDEND POLICY AND DIVIDEND PROPOSAL

Dividend policy

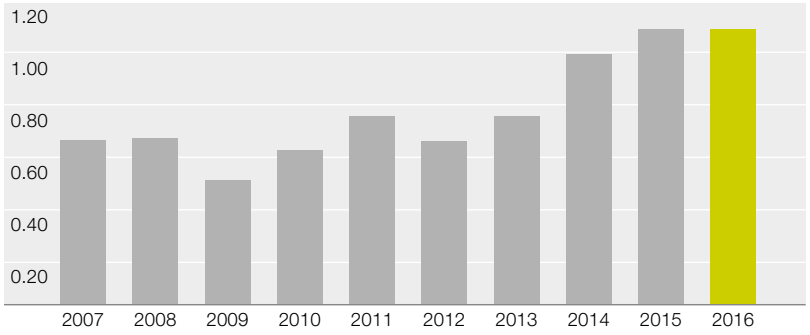
TKH aims for an attractive return for its shareholders, which is also reflected in an appropriate dividend policy. Healthy balance sheet ratios are very important to the continuity of the company. In determining the distributable dividend, TKH takes into account the amount of profit the company needs 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%.

Dividend proposal

At the Annual General Meeting to be held on 3 May 2017, TKH will propose the payment of a dividend of € 1.10 per (depositary receipt of a) share (2015: € 1.10). Based on the number of outstanding shares at year-end 2016, this amounts to a pay-out ratio of 49.2% of the net profit before amortization and one-off income and expenses attributable to shareholders and 53.1% of the net profit. TKH will propose the payment of a cash dividend to be charged to the reserves. The dividend will be payable on 10 May 2017.

DIVIDEND

in €



New location for the production of subsea cable systems

To respond to the demand for cables for wind farms, the TKF factory in Lochem (the Netherlands) was recently equipped with a complete new set of machines and test facilities for the production of subsea cables. According to a ground-breaking process, the cable cores are finished with an aluminium sheath that results in exceptional electromagnetic screening. The individual cores are tested in a Faraday Cage. Once the individual cores have been wound together on one of Europe's largest stranding machines, a layer of filler and a sheath are applied, followed by the application of a woven steel protective sheath around the cable (the so-called armouring process). Finally, the cable is wrapped in a plastic outer sheath. Following assembly, the cable is again electrically tested. The factory has been designed in such a way that TKF is capable of supplying cables as a single unit, in lengths of more than 20 km. The completed cables are transported to seaports on board of a TKF barge, equipped with an ingenious cable laying installation, designed in-house at TKF.

ACQUISITIONS, INVESTMENTS AND DIVESTMENTS

In the year under review, the focus was mainly on organic growth and optimally integrating the businesses already acquired into the TKH organization. The priorities being to foster cooperation and combine strengths in the core technologies into total solutions, in order to target the vertical growth markets. This integration is progressing well with visible results.

In July 2016, TKH finalizes the acquisition of the Airfield Ground Lighting ('AGL') activities from HELLA KGaA Hueck & Co. ('HELLA') in Germany. The activities comprises a market AGL portfolio based on innovative LED technology. TKH and HELLA have already been successfully cooperating in the development and design of the CEDD (Contactless Energy & Data Distribution) technology of TKH, whereby the lighting fixtures of HELLA are part of the solution. TKH has taken over the operating site in Nykøbing Falster (Denmark) and main assets from HELLA in Lippstadt (Germany), including intellectual property rights for AGL products. The acquisition strengthens the strategic activities of TKH in its vertical growth market Tunnel & Infra. The acquisition comprises an annual turnover of € 7 million.

Because of the focus on core technologies, attention has been paid in the year under review on activities that recognize insufficient connection to TKH's strategy. This has led to the sale of TKH's 51% interest in Parking & Protection BV ('P&P') to Interparking Nederland B.V. in Rotterdam. P&P focuses on the realization, management and operations of parking facilities. For TKH the activities are considered non-core, whereas the focus of TKH is on developing advanced own technologies and offering total systems and total solutions. P&P realized a turnover of € 5.7 million with 31 employees (FTE).

Investments in tangible non-current assets

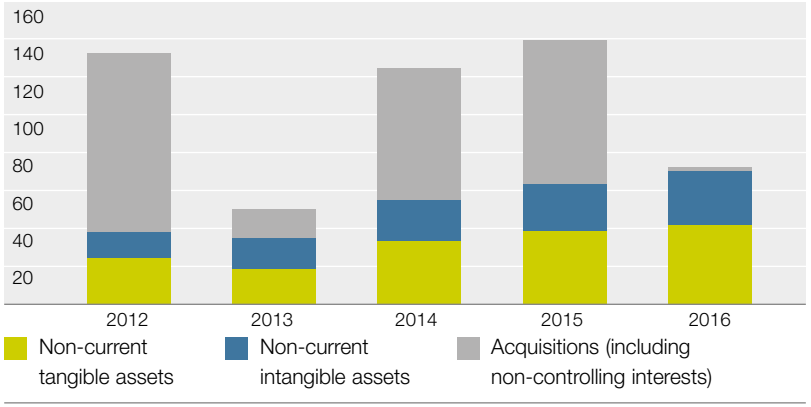
In 2016, the net investment in tangible non-current assets totaled € 45.5 million (2015: € 38.5 million). Most important investments were related to the production locations. The investments were mainly related to the sub-segments building connectivity systems, vision & security systems and manufacturing systems. An important part of the investments refers to expansion in building and production capacity. Depreciation on tangible non-current assets totaled € 22.8 million in 2016 (2015: € 22.6 million).

Investments in intangible non-current assets

In 2016, TKH invested for € 28.9 million in intangible non-current assets (2015: € 25.4 million). The main investments related to the (further) development of our technologies and patent-related costs, for the benefit of our solutions to vertical growth markets. These include among others a new generation of tire building systems, the subsea portfolio and production technology, contactless energy and data distribution (CEDD) technology for airfields, the medicine distribution system, a new security platform, a 'new generation' platform for communication systems as well as 2D and 3D vision.

Spending on acquisitions totaled € 0.8 million (2016: € 49.7 million). Through these acquisitions, intangible non-current assets increased € 1.4 million due to purchase price allocations for acquired brand names, customer lists, intellectual property and goodwill paid (2015: € 52.0 million).

INVESTMENTS
in million €



PERSONNEL AND ORGANIZATION

The quality of both the organization and the employees is a decisive factor in the success and growth of the TKH Group. We place high demands on our employees who, in turn, have a clear idea about what is expected of them and how they can play an active part. In addition it is our duty to be a good employer and to motivate our employees as much as possible so that they can carry out their work with enthusiasm. We offer our employees a safe and healthy working environment and give them opportunities for personal development.

TKH has a decentralized organizational structure, based on the Telecom, Building and Industrial Solutions business segments. This structure allows TKH to respond quickly and flexibly to opportunities in the market and customer demands. Short lines of communication, delegated authority and entrepreneurship are typical of the way we work at TKH.

Social and geopolitical developments compel us to be ever more watchful of developments that could impact our company. A key part of that is a risk-management model that helps us to anticipate and effectively deal with uncertainties and threats. But this approach also enables us to recognize and successfully exploit opportunities. Risk management is firmly embedded in our management model. It is characterized by short lines of communication with the Executive Board and is backed up by close monitoring of agreed objectives using a sophisticated KPI dashboard. This provides clear insight into implementation of the agreements. The KPI dashboard is divided into weekly, monthly and quarterly information and presents an overview of the KPIs in a clear and accessible format, over longer periods. An effective reference framework that includes budgetary and historic information, helps us to quickly and adequately detect deviations from the agreements. Trends and deviations in both a positive and negative sense can be discussed at length in order to get to the bottom of developments and to make operational adjustments where necessary. This method of working is stimulated from the top down, so that it pervades all parts of the company. A good system of frequent consultation is in place to ensure that ongoing developments and

MANAGEMENT BOARD

From left to right

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

STAFF TKH GROUP

Financial Affairs
Gertjan Sleeking

Internal Audit
Derk Postma

Legal Affairs
Maarten Fonkert

Personnel & Organization
Elling de Lange MBA
Renate Dieperink MBA

Company Secretary / CSR
Renate Dieperink MBA

detailed reports are discussed with the management of the operating companies on a quarterly basis, or monthly or weekly if necessary, to identify potential risks at an early stage and to be able to take the desired organizational measures. The reports give both quantitative and qualitative information, and are structured along the lines determined by TKH. This provides the stimulus for transparent reporting on both positive and negative matters.

We set up specific programs to generate greater awareness of developments that could negatively impact our company. Over this last year, we have defined cyber crime and other cyber risks as a specific theme and focused on it in various consultation frameworks. To manage such risks adequately, it is essential that awareness on a specific theme becomes firmly anchored throughout the organization.

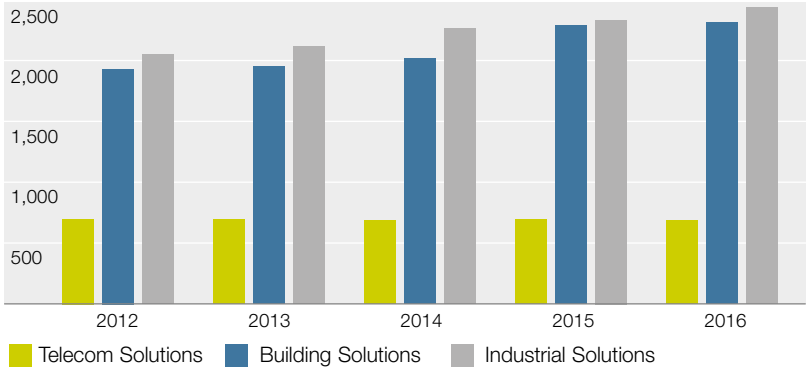
An important starting point in the management structure of TKH and its operating companies is to ensure a good balance of personalities, know-how and skills in the management of the company in question. Mutual respect is the basis for making properly considered decisions. A good balance between, for instance, the CEO and CFO is of considerable importance in this respect. TKH places high value on the integrity of its employees. This approach is predicated upon openness and transparency. TKH is characterized by an open attitude in the workplace, which is stimulated by the exemplary conduct of the Executive Board and the boards and managers of the subsidiaries and other key positions. An unambiguous code of conduct, control of working methods and a zero-tolerence policy regarding fundamental themes such as fraud, bribery and corruption are the guarantee that our employees adhere to the right principles and procedures. Conduct impacts the quality and the result of TKH. Due to our open culture, our people feel involved in the company and will correct others if they display undesirable or unacceptable behaviour not in accordance with the standards we aspire to. Co-operation and the conduct of the management of the companies is also closely monitored. Employee satisfaction surveys and customer satisfaction surveys are regularly used to assess where there is room for improvement within the companies. The management is encouraged to maintain contact with staff at every level of the company and with its stakeholders. The Executive Board and cluster management each meet and visit the premises of the operating company as frequently as possible, allowing employees to come into contact with the Executive Board by making presentations, holding project meetings or giving guided tours.

Based on its market approach, TKH has defined seven vertical growth markets in which it predicts that above-average growth can be achieved. A member of the Executive Board is responsible for meeting the targets in each vertical market. In a number of vertical growth markets, a manager is appointed who bears ultimate responsibility for the vertical growth market in question and who reports to a member of the Executive Board. In order to enhance cohesion, we have set up clusters of companies with a single responsible manager. This leads to greater efficiency in terms of the organizational management, since the clusters organize joint activities such as product development (R&D), marketing, communications and sales support. Moreover, this arrangement leads to consistency in branding and customer approach, with clear positioning toward the vertical growth markets.

At TKH, a Management Board is formed. This Management Board consists of three members from the Executive Board, as well as the CEO of VMI Group, Harm Voortman, TKH's Finance & Control director, Gertjan Sleeking, and the company secretary, Renate Dieperink, who manages the portfolios for CSR, HR and PR. This also addresses the issue of diversity in the management of the company with regard to the male/female split. The Management Board meets monthly, discussing

NUMBER OF EMPLOYEES PER SOLUTIONS SEGMENT

in FTEs



developments within the group. The Executive Board is responsible for decisions taken by the Management Board and bears ultimate responsibility for the company as laid down in the articles of association.

In addition, TKH has a Strategic Sounding Board to discuss the execution of TKH's strategy and to review said strategy. The TKH technologies and vertical growth markets are represented in the Strategic Sounding Board. Together with the Management Board, the members of the Strategic Sounding Board constitute an effective forum for the discussion of strategy, possible dilemmas, technological and portfolio developments as well business development within TKH. This platform also offers the opportunity of getting up-and-coming talent involved at an early stage in strategy development and the execution of strategy, and to explore management development.

Developing talent

Given the scarcity on labour markets, talent development and management development are gaining an increasingly strategic value. We focus closely on developing, training, attracting, retaining and recruiting talent in our organization. Our aim is to create a clearer picture of the required profiles and competences of new employees on the one hand, and internal promotion and talent development within the organization on the other. Our Management Development program is designed to involve young talent in the developments within TKH and prepare them for the next step in their career. Each year, we offer 25 candidates a one-year Management Development program in collaboration with Nyenrode Business University. Candidates are put forward by the management of our subsidiaries on the basis of pre-determined selection criteria. The Executive Board maintains close contact with the candidates of the MD 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.

In terms of its HR policy, TKH adopts a decentralized approach, in which local management is responsible for implementing policy, within the guidelines established by the group. This allows the subsidiaries the freedom to quickly shift gears under changing circumstances and take the appropriate organizational measures.

Participants MD Program 2015-2016, Nyenrode Business University.

Employee representation

The interests of the employees are promoted at subsidiary level by the local Works Councils, and at TKH Group level by the Central Works Council. These councils maintain employee representation structures under the terms of the Works Council Consultation Act [Wet op de Ondernemingsraden]. During the year under review, the Executive Board and the Central Works Council held good and intensive consultations. Some of the matters elaborated on included results and organizational developments, the strategy and the budget, investments, the TKH annual report and general HR issues. Special themes covered during the reporting year included the acquisition of the airfield ground lighting activities of Hella, appointments and reappointment in the Supervisory Board, as well as the amended committed credit facility. Under the terms of the Central Works Council's (special) right to recommend candidates, the vacancies in the Supervisory Board have been dealt with. Through seminars, the Central Works Council has addressed actual topics affecting the Council and which are covering the participation structure in general. 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 subsidiaries.

MEMBERS OF THE CENTRAL WORKS COUNCIL

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

To strengthen ties among the various Works Councils and other staff representative bodies in the Dutch subsidiaries, TKH organizes an annual Works Council Day for all members of the Works Council and personnel representatives. This day is always organized at the premises of one of the subsidiaries. The Executive Board holds a presentation on developments within TKH. In addition, current topics are dealt with and the management of the subsidiary at whose premises the day is being held gives a presentation about the company, followed by a guided tour. Moreover, time is set aside for informal discussion, not least so that knowledge can be shared. In the reporting year, Eldra in Ittervoort hosted the annual Working Counsel day. A delegation from the Supervisory Board also attended the event. TKH attaches great importance to an open dialogue and its discussions with the various works councils and the Central Works Council. We believe that adopting an active approach to employee representation helps us to stay alert.

CORPORATE SOCIAL RESPONSIBILITY

As a matter of strategic priority, corporate social responsibility (CSR) is firmly anchored in our day-to-day operations, and CSR initiatives are more and more being integrated into our organization. Our CSR policy is future-focused and provides a framework for our short- and medium-term plans. This makes the organization aware of the impact of our day-to-day operations on society. What we are looking for is a good balance between short-term and medium-term profits, without losing sight of our business interests. We report in line with the international guidelines of Global Reporting Initiatives (GRI G4.0) and endorse the OECD guidelines for corporate responsibility. We apply the IIRC (International Integrated Reporting Council) value creation model to show how value is created within TKH. The Executive Board is intensively involved in CSR programs and initiatives. Interactions with our subsidiaries ensure that 'best practices' are shared, so that we can continue to tighten and improve our performance.

CSR mission

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

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

CSR strategy

TKH's general strategy is reflected in a specific sustainability policy. In order to best guarantee our social and environmental responsibility, we focus on topics that are material to us and our stakeholders, on which our impact is material and on which we can also exercise influence.

We take account of the impact of our activities and business operations in four domains: People, Planet, Profit and Positioning.

- People: the social aspect of the business - how the business affects people.
- Planet: concern for the environment and climate - the impact of the business on the natural environment.
- Profit: the economic side of business - a condition for the continuity of the company's business.
- Positioning: the place and distinctiveness of the company in the world in which it operates - safeguarding our reputation.

We have set objectives based on clear KPIs, which are closely monitored.

Our added value

In our business practices, we focus on the external and internal environmental factors and analyze the trends in these. We make an estimate of the relevant opportunities and threats and see how we can provide added value for our stakeholders and society in general. The overview hereafter shows our added value in CSR for each trend and how we have organized this internally based on defined objectives.

PEOPLE

the social aspect of the business - how the business affects people.

PLANET

concern for the environment and climate - the impact of the business on the natural environment.

PROFIT

the economic side of business - a condition for the continuity of the company's business.

POSITIONING

the place and distinctiveness of the company in the world in which it operates - safeguarding our reputation.

TRENDS IN CSR

TRENDS	THEME	CSR SUB-AREA	OUR ADDED VALUE	OPPORTUNITIES	OBJECTIVE	POSSIBLE RISKS
Economic / financial	Positive growth prospects in the global economy.	Profit	Ambitious but realistic financial targets with a sound risk management system.	A clear strategy with firm objectives. In investments, returns and possible risks are weighed carefully against each other.	ROS: 11-12%. ROCE: 20-22%. Net Debt / EBITDA: < 2.0.	Worldwide economic and geopolitical developments.
	Increased investments in sustainable technology and modern infrastructure.	Positioning	Focus on four core technologies and seven vertical growth markets.	Our distinctive core technologies in conjunction with the chosen vertical growth markets are a major driver in exploiting opportunities in market niches in which investments are a high priority.	Expected growth in the vertical growth markets for the next 3-5 years from € 300 - € 500 million.	Dependency on government measures in some markets.
	Globalization.	Positioning	Knowledge of the operation and of the markets in which we operate.	Exploit market opportunities by means of collaboration and synergy in the group. Advantage of scale.	An average of 1 - 3 acquisitions per year with turnover of € 10 - € 50 million each. Acquisitions correspond to our core technologies and their corresponding vertical growth markets.	Limited market share and brand awareness in a number of sub-segments. Unsuccessful integration of acquired companies.
In the market	Companies must excel in their knowledge of specific customer needs and differentiate themselves with innovative product designs and services.	Positioning	High customer satisfaction.	By obtaining insight into the level of satisfaction and the expectations of our customers, we can offer tailor-made total solutions that maintain and improve the competitive position on both sides.	Customer satisfaction survey with an average score above the benchmark.	Reputational damage as do not sufficiently satisfy customers' expectations, resulting in underperformance of result and turnover development.
	Globalization in the value chain.	Positioning	Active chain approach.	Co-operation in the value chain can stimulate innovations and increase engagement of suppliers and customers. Better and quicker response to trends. Sustainability aspects are guaranteed.	Active participation in at least three chain initiatives. Percentage of signed codes of supply by suppliers with a purchasing volume > € 1 million. Site visits in the year subsequent to signing a code of supply.	Dependency of customers and suppliers Non-compliance with legislation and regulations by chain partners. Image or reputational damage of chain partners.
	Product life-cycles are becoming increasingly shorter, which also calls for faster and better innovation in order to retain and improve our competitive position.	Positioning	Avoiding customer complaints.	The quality of our products and services is a determining factor for the success of our company. We wish to avoid customer dissatisfaction.	Total number of complaints resolved within five working days > 60%.	Reputational damage because our products do not satisfy customers' expectations, resulting in underperformance of result and turnover development.
Technological developments	Internet of things / Industry 4.0 / emergence of vision technology and increasing use of robots.	Positioning	A balanced and sustainable product portfolio.	Our core technologies play a major role in dealing with sustainability issues such as quality of life, energy saving, efficiency in production processes and with regard to the secure environment.	To have at least 15% of turnover generated by innovations introduced in the two previous years.	Speed of technological developments and competitors' new technologies offering more perspectives than TKH technology. Risks of cyber crime.
	Demand for more efficient and reliable production processes.	Positioning	Four core technologies that in conjunction offer total solutions guaranteeing efficiency and safety. Vision technology plays a decisive role in this.	Core technologies that respond to the demand for greater efficiency and safety.	Focus on investments and acquisitions of companies that have a direct relationship with the four core technologies.	Being unable to introduce sufficient (sustainable) innovations.

TRENDS IN CSR

TRENDS	THEME	CSR SUB-AREA	OUR ADDED VALUE	OPPORTUNITIES	OBJECTIVE	POSSIBLE RISKS
Social and human	Due to aging, important know-how is flowing out of companies. The core of the work is increasingly complex and knowledge intensive. This imposes immediate demands on the working and thinking level of the employees.	People	Interesting employer with a focus on entrepreneurship and development opportunities, as well as good employment practices, ethics and integrity.	We want to be a good employer for current and future employees and give them development opportunities.	At least 16 hours per FTE/year are devoted to education and training. At least 90% of all employees get a performance and assessment interview. An employee satisfaction survey with an average score that at least meets the benchmark.	Shortage of well-qualified staff and the inability to retain qualified staff. Undesirable or unethical behaviour on the part of employees; reputational damage.
	Composition and age structure of the working population is changing.	People	The size and nature of the company creates opportunities for a broad working group.	We want to be an attractive employer offering equal opportunities for everyone and in an environment in which knowledge, confidence and diversity is appreciated.	Sustainable employability. Attention for people with disabilities or restricted opportunities on the labour market.	No or insufficient match between the wishes and requirements of employer and employees, which may lead to conflicts, increased working pressure and stress.
	Hardening of society.	People	Attach great importance to ethical behavior by its employees. Example behavior at the top.	Norms and values are set down in the TKH code of conduct. A whistleblower procedure enables our employees to report undesirable situations.	All staff members must sign the code of conduct. No violations of the code of conduct.	Reputational damage.
	High demands of working and thinking level due to increasing automation.	People	A clear sick leave policy. Safety on the shop floor.	Reducing sick leave through a proactive programme based on sustainable employability. Offering health checks and encouraging employees to live healthy lives. Trying to prevent all workplace accidents through an active safety programme. Drawing up clear safety instructions and increasing safety awareness.	Absenteeism is at or below the percentage for the sector. Annually reduction of the number of accidents with at least 10%.	Reduced vitality. A reduction in attractiveness as an employer.
	Increasing demand from society for companies to become more socially active.	Positioning	Social engagement.	From the perspective of our social commitment, we support social initiatives in the areas of health, sports and culture.	0.2% - 1.0% of net profit before one-off income and expenses spending to social initiatives.	No direct impact on the cash flow.
Sustainability / natural	Resources are becoming depleted due to the high consumption of raw materials.	Planet	Waste reduction and recycling.	Achieve positive results by handling raw materials economically. Reduce the risk of scarcity of raw materials.	5% waste reduction for the most relevant raw materials compared with production volumes. At least 50% of all waste is recycled.	Important raw materials are unavailable or available in limited quantities. Commodity price volatility.
	The global demand for energy will increase strongly in the coming decades, while the stocks of fossil fuels are becoming scarcer and harder to extract.	Planet	Energy and CO_2 reduction program.	Contributing to climate objectives. Reducing costs by energy savings and efficiency programs.	2020: 5% energy and 2.5% CO_2 reduction (reference year 2015). Average CO_2 norm for new leased cars: < 135 grammes/km. 2020: < 95 grammes/km.	Reputational damage by failing to recognize the impact of our activities on the environment in time. Risk of penalties.
	Technologies play an important role in the approach of sustainability issues, such as in relation to the quality of life, energy saving and safety.	Planet	Efficiency programmes like LEAN/Six Sigma.	Eliminating all wastage from the production process by creating value in it.	Avoiding complaints relating to environmental requirements.	Reputational damage by failing to recognize the impact of our activities on the environment in time.

TKH in the value chain

One way to achieve a healthy, sustainable business is to co-operate with parties in the value chain. Our objective in this is to enhance knowledge in the value chain in order to develop joint initiatives. Because only by working together is it possible to create added value in the chain as a whole. The way in which -and the degree to which- we influence those initiatives differ, however.

Input

- We use a range of capital flows to be able to achieve our ambitions. Meetings are taking place with our suppliers of raw materials and intermediate products on the sustainable sourcing of raw materials and possible alternative materials that will make our production processes more sustainable and efficient. We discuss the recycling of waste and residual materials with those same suppliers and with waste collection companies. We expect our suppliers to act sustainably as well and, to guarantee this, we have included our views in the 'code of supply'.

Our employees are our most important asset. They contribute skills and know-how in many fields. Sustainability has an increasingly prominent role to play in this.

Throughput

- In our business model, we have applied operational management models that have been incorporated in an operational excellence program. In this program, we strive for optimal performance in our operational processes with targeted efficiency effects. This supports our business in the areas of quality and safety. Our production companies work according to the LEAN principle. LEAN is a method of eliminating all wastage from the production process by seeing where value can be added to it in both the production process and actual customer demand. Processes are discussed daily in the operational environment in order to continuously improve them. As a consequence, sustainability is increasingly integrated within the operational environment. Where possible, procurement needs in the group are being combined to exploit economies of scale. Knowledge sharing and synergy within our subsidiaries lead to a balanced and sustainable portfolio. The core technologies are merged into innovative total solutions in order to meet customer demand.

Output

- By adding specific application know-how, we are specialists in our defined vertical growth markets and we can offer customized solutions. By using basic technology platforms we can offer our customers the best possible solutions in terms of cost price and efficiency. And we pay attention to social issues, such as scarcity of raw materials and energy wastage, and develop programs together with our customers in an effort to address these issues.

Outcome

- Materials and fossil fuels will only become scarcer. Alternative and more sustainable materials are being used with increasing frequency, and the composition of the products, systems and solutions form the basis for optimum recycling and returning any waste to the original source. Not just throwing away used materials, components and products, but returning them to the right value chains will create a sustainable business model.

VALUE CHAIN TKH GROUP

	INPUT	THROUGHPUT BUSINESS MODEL	OUTPUT MARKETS	OUTCOME END-OF-LIFE
Sustainable activities	• Produced. • Intellectual.	• A balanced, sustainable portfolio. • Operational excellence program. • Sustainability in the value chain.	• High ROI. • Improvement in turnover and profit margins. • Sustainable portfolio. • Sustainability in the value chain.	• Sustainable, reliable products. • Circular economy. • Full recycling of products.
Resources	• Financial. • Human. • Natural.	• Reduction of waste and energy. • Re-use of materials. • Input of skills and know-how.	• Reduction of material and energy consumption in customer processes. • Efficiency in production processes of customers.	• Energy neutral. • Full recycling of products.
Social and relationships	• Committed suppliers (and sub-contractors). • Financial institutions.	• Committed and satisfied employees. • Research institutes.	• Satisfied customers.	• Satisfied customers and end-users.
Directives	• Code of supply. • REACH - ROHS. • ISO standards.	• Code of conduct. • Corporate Governance Code. • REACH - ROHS. • ISO standards. • OECD guidelines. • CSR performance ladder.	• ATEX. • KEMA/DEKRA. • FIRA. • CO_2 performance ladder.	• ATEX. • KEMA /DEKRA. • CE standard.

Stakeholder meetings and interaction

TKH conducts frequent consultations with stakeholders who have various interests in our company. Our assumption is that we want to create value for our stakeholders. By entering into dialogue with them, we are attempting to fine-tune our strategy and operations where possible to meet their wishes and requirements. When holding stakeholder dialogues, we work together with members of management of our operating companies, business line managers, account managers and HR. The Executive Board and Management Board are frequently involved in these dialogues. Information on who our shareholders are and the various means of communication we use can be found in the 'Our stakeholders' section.

Various stakeholder dialogues were held during the year under review. These talks focus on one of the following topics:

- Business development.
- Good employment practices.
- Investor Relations.
- Value chain initiatives.
- Review of current sustainability topics and policy.

Business development

Sustainability plays an ever greater role in the dialogue with customers. In addition to the fact that we are asked to share information on our performance in relation to sustainability with them, our customers also ask us to contribute to answering their sustainability questions. We deploy our knowledge of the market, our technologies and wholesale solutions to make a contribution to the value chain. And we talk to our customers on our own initiative. This allows them to tell us about what they would like to see, and what they need in relation to sustainability, which in turn allows us to respond swiftly and alertly. In the year under review, this has led to investments in production and in adaptations to products. The composition of, for example, cable sheaths has been modified, and production lines have been fitted with our 3D camera-inspection system to detect imperfections in cable sheaths at an early stage. With the technologies we use, we can meet customer demands for increased efficiency and product safety. We conducted talks with strategic suppliers regarding our code of supply. We discussed working conditions and on-site safety as well as the possible impact of the supplier's activities on the environment. The choice of a supplier will be increasingly influenced by the question as to whether it contributes to achieving our sustainability and innovation objectives.

Good employment practices

- Our employees are our most important asset. Short lines of communication and entrepreneurship are typical of the way people work at TKH. Responsibilities are embedded as deep in the organization as possible to stimulate local entrepreneurship. Entrepreneurship must be clearly defined and is monitored closely via an extensive dashboard. We use appropriate consultation frameworks to discuss current developments with the management of the subsidiaries at least once per quarter.
- We use webinars to share know-how with our employees on current topics. This allows us to reach a large group of employees both efficiently and effectively. The substantial benefit of this is, moreover, that feedback on specific issues can be given immediately, and that people can learn from each other's questions.
- Personal learning and development plans are assessed at meetings between manager and employee every year, as part of the performance management process.
- Managers in the organization have regular meetings with local works councils. There is frequent consultation with the Central Works Council at TKH level.

- Via the TKH intranet we can reach a large group of employees. In addition to provide information from TKH to the subsidiaries, the intranet is configured dynamically to make it possible that our subsidiaries can publish news items and other information themselves. This enables an interactive exchange of information. Several times per year, we publish the in-house TKH 'Inspire' magazine, which includes commercial information and information on developments within the organization. 'Inspire' is circulated among all TKH employees.

Investor Relations

As a stock listed company, TKH keeps its shareholders and holders of depositary receipts of shares, investors and the market in general, updated on developments and its financial developments. We publish in this extent press releases based on quarterly, half-year and annual figures. In addition to maintaining relations with existing shareholders and holders of depositary receipts of shares, we believe it is important to bring TKH to the attention of potential investors. In the past year we took the following opportunities to communicate our message in the context of investor relations.

- Road shows and conferences.
  The CEO and CFO took part in road shows and conferences in which conversations were held with investors (both current and potential), holders of depositary receipts of shares and shareholders. Such conversations are mainly held at a TKH site, where they are combined with a guided tour in a production facility, or in the TKH Experience Center in Amsterdam. This creates a better understanding of our technologies, what we do and of our strategy.
- Analyst meetings.
  Analyst meetings are held when the annual and half-year figures are published. This event is always held at the TKH Experience Center in Amsterdam. Following the publication of trading updates, the Executive Board is available to answer questions by telephone. In all discussions, the applicable restrictions are observed and we take care that all relevant information will be shared to the same extent and at the same time.
- A TKH shareholder day was organized in September. Various investor days, in collaboration with banks, were also organized during the year under review in the TKH Experience Center in Amsterdam. Besides a general presentation, the program also includes a guided tour.
- TKH organized a Capital Markets Day in November, which was held at subsidiary VMI Holland BV in Epe (the Netherlands). The day served to give investors more insight into TKH, the vertical growth markets Industrial Machine Vision and Tire Building Industry, and TKH's positioning and technologies in relation to these markets.
  Following presentations from the local management of Allied Vision, LMI Technologies and VMI Group respectively, there were demonstrations of applications in vision technology, followed by a guided tour at VMI, where an insight into the applied technologies in tire building systems could be acquired.
- Investors in TKH shares increasingly ask us to show how we have structured our sustainability policy. We pursue this dialogue through one-to-one talks at road shows or conferences.

Value chain initiatives

- In the year under review, TKH took a proactive part in sector initiatives focusing on the circular economy and value chain innovation programs. We are one of the participants in the 'Plastic and rubber in the underground infrastructure' value chain innovation program. This innovation program is part of 'Nederland Circulair', a program promoting a circular economy in the Netherlands, in which various social organizations are working on seven topics to accelerate circular business models in the Dutch economy. In this respect, we have committed ourselves to the ambition of 100%-circular use of materials

in the underground infrastructure before 2040. By continuing to work with value chain partners, we will achieve the innovation that is needed to realize this ambition.

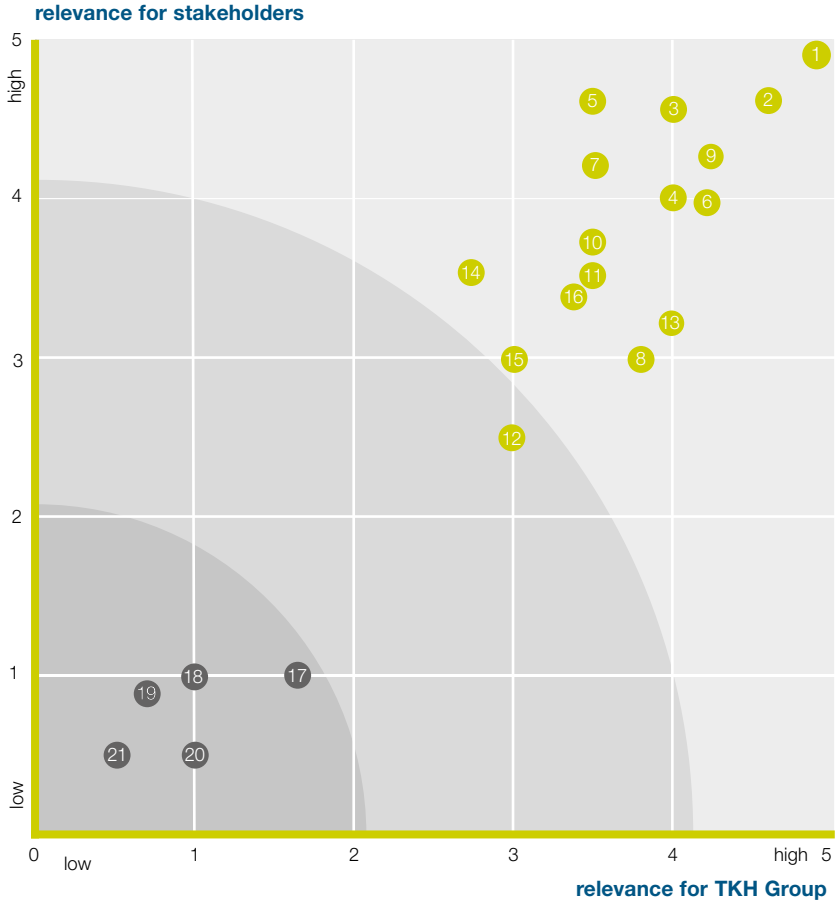
- As a supplier of cable systems, we are a consulting partner for Dutch infrastructure companies that are focusing on the 'Fair Infra' mission statement. The aim is to accelerate the transition to sustainable energy.
- TKH is a participant in steering committees and working parties of trade associations, such as NEDEK (the association of Dutch cable manufacturers), Uneto/VNI (electro technical fitters and retailers) and FEDET (electro technical and mechanical engineering supplies). As far as the machine vision activities are concerned we are, for example, a member of EMVA (European Machine Vision Association) and AIA (American Machine Vision Association). A trade association, in our view, is a platform from which to follow developments in technology, legislation and the market. A trade association makes it possible to make contact with agencies and training institutions, which helps forge connections with the business community.
- TKH has joined the FME, the Netherlands' biggest employers' organization in the technology industry. In addition, managers are involved in regional industrial platforms and occupy positions in social network groups, such as international student network groups. The aim of this is to promote jobs and improve TKH's economic position in the region.
- In the past year, we joined the '99vantwente' network. This network focuses on improving access to employment for partially occupationally disabled or people with restricted opportunities on the labour market in the region. Participating employers work together on shared themes and help each other in achieving ambitions.

Review of current sustainability topics and policy

- During the year under review a stakeholder dialogue was organized in the Experience Center. Those present included suppliers, customers, banks, analysts, NGOs, employees and members of the Central Works Council. The day was supervised by an external expert. Three current topics were addressed during this dialogue, these being the impact of climate change, circular economy and transparency/integrated reporting.
  a. The impact of climate change in relation to TKH operations and activities. Stakeholders suggested that TKH should view the environmental and climate targets as a long-term goal. This could mean a short-term reduction in profits for the sake of better performance in the long run. The stakeholders asked themselves whether the agreed energy reduction targets were ambitious enough. More to the point, a long-term target must be combined with an actual roadmap of how to get there.
  b. Circular Economy. Stakeholders argued that TKH has the opportunity to be one of the pioneers in the field of the circular economy. Given our central position in the value chain, we are ideally positioned to become a pioneer. The stakeholders are of the opinion that TKH must have a specific circular economy ambition in place, although the pragmatic character of TKH must be taken into account by linking short-term objectives to the long-term ambition. The common opinion was to first properly define circular economy and to make it tangible, before committing to a firm ambition.
  c. Transparency and integrated reporting. Stakeholders are proponents of demonstrating the effect of the CSR policy with more quantitative information. The value-creation model can be more precisely tweaked to the TKH situation. The stakeholders acknowledged the material topics as presented in the materiality matrix. They would like to see this combined with the acknowledgement of dilemmas TKH is facing. Moreover, the stakeholders were expecting TKH to show how its activities were linked to the sustainable development goals (SDGs) in its reporting.

  The dialogue gave us some useful food for thought. The results indicate a clear direction for how the topics dealt with can be further developed within TKH, supported by clear priorities. The challenge we still face is to keep our business operations in balance with the interests of our stakeholders. We found the stakeholders' willingness to collaborate in such dialogues a refreshingly positive experience. In our view, this underlines the maturity of this subject.
- In 2016, stakeholder dialogues were also held regarding the CSR performance ladder. The outcomes of these talks were also included in verifying the materiality matrix and are explained further in the relevant section.

MATERIALITY MATRIX TKH



MATERIAL

1	Financal targets	Profit
2	Code of conduct	Positioning
3	Innovation	Positioning
4	Education and training	People
5	Sustainable procurement (code of supply)	Positioning
6	Good employership	People
7	Health and safety	People
8	Complaints mechanisms	Positioning
9	Sustainable customer and product portfolio	Positioning
10	CO_2 emissions	Planet
11	Energy reduction	Planet
12	Supporting good causes	Positioning
13	Raw materials consumption & waste reduction	Planet
14	Human rights	Positioning
15	Diversity in the workforce	People
16	Initiatives in the chain	Positioning

LESS MATERIAL

17	Local presence
18	Customer privacy
19	Public policy
20	Water
21	Biodiversity

Dilemmas

At the roll-out of our CSR strategy and on hitting our targets we come up against dilemmas. In order to confront these issues, we embrace them and try to reach a consensus or come to a solution that is acceptable in the long term. In some situations, however, it is impossible to find suitable solutions at short notice. Below is a list of dilemmas we have encountered in the past year, on which our attention is still focused.

- Demand for sustainable action in our operations and sustainable solutions is on the rise. In certain markets, however, 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 pricing margin.
- Reducing our energy consumption and CO_2 emissions calls for thorough co-ordination of internal production, which in turn is dictated by current demand. In the past years our management focus was on energy and CO_2 reduction, which has brought many savings plans successfully. Because of this, it is becoming increasingly difficult to continue to satisfy reduction targets. In addition, in the year under review investments have been made in manufacturing facilities, which has led to a rise in energy consumption, but which cannot yet be recouped by the output created by these investments. Among other things, this applies to the new factory for sub-sea cable systems in Lochem (the Netherlands) and the new site for VMI tire building systems in Leszno (Poland). The planned roll-out of new business associated is expected to make a contribution to the production values from mid 2017.
- Customers and investors increasingly ask us to pass information separately, through platforms such as CDP, Fira and Vigeo. In light of price-sensitive and competition-sensitive information it is not always possible to honour all requests. For that reason, we take a selective approach to divulging information through third-party platforms and make conscious choices on the information that we release.
- Our subsidaries sometimes have difficulty with the fact that a different attitude is required for negotiations with strategic suppliers as sustainability criteria also form part of those negotiations, and with the fact that they have to resort to different suppliers if the discrepancies between our standpoints in this regard are too wide apart. We support our buyers in this respect, but our point of view remains that we do not make concessions to the criteria stated in our ‘code of supply’.

Materiality matrix

The materiality matrix is composed of issues that are material for TKH and our stakeholders. The horizontal axis comprises a scale of material issues important to the TKH organization. The vertical axis ranks the subjects that our stakeholders believe are important. The influence or relevance of the issue is in direct proportion to the magnitude of its materiality. By assigning a certain value to the issues, it is easier to see which issues are the most relevant.

The materiality matrix drawn up in 2014 covers a period of several years. In this way we aim to achieve consistency in our policy. In the annual assessment, we look at whether or not the materiality matrix needs adjustment in terms of prioritizing specific issues or, indeed, allowing them to slide down the list. Topics that are deemed less relevant, or even of no relevance at all, by our stakeholders and also by TKH will not be explained further in the annual report. These are subjects classified as 'less material'.

In the identification of material aspects and the annual review of these, we consult the following sources:

- TKH strategy.
- TKH risk-management program.
- General governance assumptions (Dutch Corporate Governance Code).
- Outcomes of the stakeholder dialogues.
- Topics suggested by civil society organizations such as VBDO, VEB, Eumedion etc.
- Global Reporting Initiative (GRI) guidelines.
- Sustainability rating agencies such as CDP, Vigeo etc.
- International guidelines such as those issued by the OECD, ILO and SDG.
- Peer reporting.
- Media analyses.

The stakeholder dialogue revealed that there was a consensus on the subjects covered in the matrix and the priority given to them. No changes were made to the composition and prioritization of the subjects in the materiality matrix. Internally, we focus on specific topics in the matrix in the usual way. The choice of a specific topic is often prompted by current events.

CSR objectives

The materiality matrix is helpful for identifying the most material issues for sustainable business that can then be used to define objectives. We have defined specific objectives for those issues defined as 'high-impact with high relevance' in the materiality matrix. The GRI 4.0 guidelines, among others, were used to define the KPIs. We monitor our objectives by means of a dashboard in our reporting system and assess the results during the year using the PDCA cycle. This makes our CSR dashboard a dynamic model that allows us to make adjustments as and when necessary. CSR is also an aspect of the annual budget preparations; the management can thus be questioned throughout the year on its performance in terms of CSR.

The following overview shows the objectives with an explanation of why they are important to TKH, and where our ambition lies. We also list the figures achieved in the past two years.

CSR OBJECTIVES 2016

	THEME	KPIS	OBJECTIVE	SCOPE	RESULT 2016 COMPARED WITH TARGET		RESULT 2015	MATRIX NO.
PEOPLE	Development opportunities.	% of employees that get a performance and assessment interview.	At least 90% of all employees.	TKH-wide.	80%.	●	81%.	6
		Number of hours devoted to education and training per FTE.	At least 16 hours per year per FTE.	TKH-wide.	21 hours per FTE.	●	17 hours per FTE.	4
	Health & Safety.	Number of accidents with at least 1 day absence.	Reduction of the number of accidents with at least 10% annually.	TKH-wide.	99 accidents (+3%).	●	96 accidents.	7
		Total sickness leave.	Below the percentage for the sector (3.9%).	TKH-wide.	2.98%.	●	2.91%.	7
	Good employership.	Employee satisfaction survey.	At least corresponds to benchmark (7.0).	TKH-wide.	7.2.	●	7.3.	6
		Number of employees who have signed the TKH code of conduct.	100%.	TKH-wide.	97%.	●	96%.	2
		Number of breaches of the code of conduct.	0 breaches.	TKH-wide.	1.	●	1.	2
	Diversity in the workforce.	Number of people in workforce with a disability or with restricted opportunities on the labour market.	At least maintain current number.	TKH-wide.	105 employees.	●	33 employees.	15
PLANET	Reduction of energy consumption and emissions.	Total energy consumption in KwH / turnover.	5% energy reduction in 2020 with 2015 as reference year.	TKH-wide with a distinction according to size.	+4.1%.	n.a.	Reference year.	11
		Carbon footprint (CO_2 emissions).	2.5% CO_2 reduction in 2020 with 2015 as reference year.	TKH-wide with a distinction according to size.	+3.8%.	n.a.	Reference year.	10
		Vehicle fleet: CO_2 norm, expressed in grams/km.	Average CO_2 norm of new leased cars: max. 135 grams/km. In 2020: max. 95 grams/km.	Dutch companies.	Existing 101.8 grams/km. New: 89.5 grams/km.	●	Existing: 108.7 grams/km. New: 88.7 grams/km.	10
	Reducing raw materials consumption and waste.	Total amount of waste from the most relevant raw materials compared with production volumes.	5% reduction in waste per year from the most relevant raw materials.	Production companies.	-15.0%.	●	-7.3%.	13
		Recycling percentage for most relevant raw materials.	At least 50%.	Production companies.	71.9%.	●	57.4%.	13
PROFIT	Continuity and shareholders value creation.	Net debt/EBITDA (debt leverage ratio).	<2.0.	TKH consolidated.	1.0.	●	0.9.	1
		Return On Sales (ROS).	11-12%.	TKH-wide.	10.9%.	●	11.0%.	1
		Return On Capital Employed (ROCE).	20-22%.	TKH-wide.	20.1%.	●	22.1%.	1
		Solvency.	>35%.	TKH consolidated.	46.7%.	●	42.4%.	1

● Objectives achieved ● Objectives not achieved but improvements possible in the short term.

CSR OBJECTIVES 2016

	THEME	KPIS	OBJECTIVE	SCOPE	RESULT 2016 COMPARED WITH TARGET		RESULT 2015	MATRIX NO.
POSITIONING	Customer Intimacy.	Gaining insight into the satisfaction and expectations of our customers through customer satisfaction surveys.	Customer satisfaction surveys with an average score above the benchmark.	TKH-wide.	8.0.	●	8.0.	9
	Complaints settlement.	% of total number of complaints settled within 5 working days.	At least 60%.	TKH-wide with distinction to activities.	70.1%.	●	67.8%.	8
		Total number of complaints received per year relating to environmental requirements.	0 complaints.	TKH-wide.	3.	●	0.	8
	Socially responsible procurement.	% of 'code of supply' signed by suppliers with a purchasing volume above €1 million.	100% in 2017.	All companies that satisfy the criteria.	77%.	n.a.	72%.	5
		% of site visits to suppliers who have signed a 'code of supply'.	100% in the year following the signing of the 'code of supply'.	All companies that satisfy the criteria.	75%.	n.a.	n.v.t.	5
	Social engagement.	Amount of sponsoring per year as a percentage of net profits before one-off income and expenses.	0.2% - 1.0% of net profit before one-off income and expenses.	TKH-wide.	0.4% of net profit before one-off income and expenses.	●	0.3% of net profit before one-off income and expenses.	12

CSR progress report for 2016

Application of the GRI 4.0 guidelines and the associated communication on our sustainability performance leads to increased transparency. A nice confirmation of this is the great step forwards that TKH has made on the transparency benchmark, a benchmark in the field of communications on sustainability initiated by the Dutch Ministry of Economic Affairs.

In the year under review it became clear that the concept of the circular economy has become more relevant in the context of making processes in the value chain more sustainable. One of the consequences of this is that we, too, have approached our suppliers more often in relation to innovation issues and internal process optimization. In that context, we have also selected the circular economy as one of the topics for discussion during our stakeholder dialogue.

The number of requests for publishing sustainability results and performance on third-party platforms has increased. However, we are selective in agreeing to participate in such initiatives, aiming to steer a pragmatic course. In 2016, we provided input for the Carbon Disclosure Project (CDP), a not-for-profit organization that solicits environmental-impact data from organizations on behalf of investors and government agencies using a platform it has developed itself. The data TKH supplied in 2016 relating to its carbon footprint resulted in a 'C' rating (awareness). This score shows the extent to which companies make CO_2-reduction part of their strategy, policy and communication with stakeholders, but also whether they actually reduce emissions. The report made a few suggestions for improvement, which we will explore further with a view to implementing them.

The CSR reporting model is a continual point for attention. Participation in third-party platforms has led to the reporting model being expanded.

Each year we highlight specific subjects from the materiality matrix. Last year, the area in question involved the changes to Dutch legislation on whistleblowers and the position of the company confidential officer. Confidential officers in the Netherlands have received information on legislative changes and are trained to perform their duties to the best of their ability. The method of reporting and following-up on such reports also forms part of the training. The day was supervised by a third-party expert from the Compliance Institute. A webinar will be organized for similar officers in other countries, including a similar form of training.

LMI has gained a position as a unique high-tech company

For LMI Technologies in Canada, 2016 was a varied year. The company successfully entered the strategic market for suppliers of consumer electronics, the largest worldwide market for its 3D inspection sensors intended for optimising manufacturing processes and improving quality control at production speed via so-called non-contact inspection. With its new product line, the Gocator 2400 sensor series, LMI is the first player in the industry to offer 6 micron scan resolution, partly thanks to key recommendations from industrial users, to system integrators. To be able to meet the growing demand for 3D sensors, LMI has also moved into a new premises, in which production space has doubled, and where a specially designed production facility has been built that will enable LMI to produce the highest possible quality 3D solutions.

It is now clear to us that CSR is increasingly being seen in a legal context. During the year we have frequently solicited the help of third-party experts on developments in this regard.

At the end of September 2015, the 193 countries of the General Assembly of the United Nations adopted the ‘Sustainable Development Goals’ (SDGs): 17 goals that cover a wide range of sustainable development issues, with the aim of making the world ‘a better place in 2030’, such as ending poverty and hunger, improving health care and education, making cities more sustainable and addressing climate-change issues. We have studied the SDGs and have weighed up these goals against our strategy and our CSR policy. An initial analysis showed that our strategy is directly related to some of the SDG objectives, i.e. that we already support them with targeted aims and programs. Where we, TKH, can really make a difference is with the products and comprehensive solutions we market. In 2017 we will be further exploring the extent to which we can mould our internal sustainability programs to match the SDGs.

In the following sections, we will report on specific indicators in the year under review, 2016, based on our 4 Ps: People, Planet, Profit and Positioning.

PEOPLE

CONSEQUENCES OF OUR BUSINESS OPERATIONS FOR OUR WORKFORCE.

TKH's strategy -and the challenging but realistic targets derived from it- focuses on a market-driven, innovative approach. This demands a qualified workforce. Various initiatives are being developed to keep our employees interested and committed and to attract people to TKH. As we follow good employment practices, the HR processes for our employees are well-organized. We aim to have an open business culture, in which employees are acknowledged and heard. In addition to a good working culture, we offer a safe and healthy working environment.

Workforce and diversity

TKH is an international group of companies with a workforce that consists of many nationalities. In an international environment such as this, which demands a flexible, wide-ranging and innovative approach, we look at diversity from many angles. TKH operates a strict policy of equal treatment for all employees, regardless of race, nationality, ethnic background, age, religion, sex, sexual orientation or handicap.

At year-end 2016, the number of employees (in FTEs) was 5,509 (2015: 5,387 FTEs). The rise is primarily the result of investments in R&D and commercial organization as well as in extra personnel as a result of expansion investments in the manufacturing plants. At year-end 2016, there were 439 (FTE) temporary employees employed (2015: 441 FTEs).

WORKFORCE RATIO MEN-WOMEN in %

	2016		2015	
	Men	Women	Men	Women
Total workforce	74	26	74	26
Newly appointed	63	37	66	34
Departures	68	32	65	35

The structure of the TKH workforce is characterized by diversity in terms of sex, a range of nationalities, backgrounds and levels of experience. The age structure is similarly balanced: 74% of our employees are younger than 50. Over half (56%) fall into the age range from 30-50. The consequence of this spread of ages is that positions at junior, middle and senior level are well represented. And the current spread of ages also leads to manageable levels in those leaving the organization as a result of retirement.

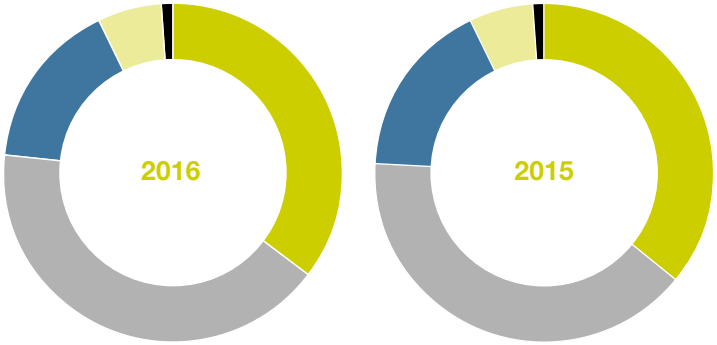
As a result of social trends, more and more workers are finding that carrying on working until a later retirement date is now a given rather than a matter of choice. In addition, the further automation leads to increasing workload and demands of our employees flexibility. As an employer, we try to keep older employees effectively employable, and have resources available that can be used in order to promote sustainable employability. For instance, we concentrate on education and training to help employees to be available for posting to a different position. Our 'vitality program' helps to support our employees push the boundaries and improve their vitality. Actually, sustainable employability focuses on young and old alike. Employees who are adaptable are better at responding to changes in their range of duties and career, and to developments in the organization. In addition to satisfied and motivated employees, our policy is part of our continuing work to address absenteeism and to retain knowledge in our organization.

The fact that we have a relatively high share of male employees can be attributed to the nature of the work we do, work that requires people with a technical/engineering background. The ratio of men to women in 2016 was 74%-26%. The ratio of men to women for newly-appointed employees was 63%-37%. Of employees leaving the company, the ratio of men to women was 68%-32%. There is no difference in the basic salaries of men and women.

In our recruitment policy, we are willing to hire people with physical disabilities and are also committed to being able to offer this group an attractive working environment. We fit out working places for employees with physical disabilities and remove hindrances wherever possible. We have created workstations for people with restricted opportunities on the labour market by means of 'job carving'. The duties involved in a job, or

different jobs, are analyzed to identify the simplest duties, which are then combined into a new job. This might consist of supporting or manual activities, for example. The employees are supervised by an external job coach while the day-to-day management of the group is performed by a manager in the organization. In collaboration with the Netherlands Employees Insurance Agency (UWV), we create work experience jobs that can be regarded as temporary employment for the long-term unemployed or people re-joining the labour market, with the aim of providing them with work experience. The number of subsidiaries in the Netherlands that provide jobs for people with restricted opportunities on the labour market increased in the year under review. At year-end 2016, there were a total of 105 people with restricted opportunities on the labour market working in our organization (2015: 33 employees). The sharp rise is among others the result of renewed focus on the issue in our recruitment policy. We are following developments in the legal quota and have set ourselves the target of at least keeping the number of people who have a disability or restricted access to the job market working in the organization to the current level.

GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES in %



	2016	2015
Netherlands	35	36
Europe (other)	42	40
Asia	16	17
North America	6	6
Other	1	1

Employees in the Netherlands covered by a collective bargaining agreement (CAO)

More than 76% of TKH's employees in the Netherlands are covered by a collective bargaining agreement (CAO). Agreement-related rules are observed in those subsidiaries where there is no collective bargaining agreement. TKH ensures that such schemes are correctly drafted and applied; particularly as regards periods of notice, restraint-of-trade clauses and profit-sharing arrangements, and that the employer complies with statutory notice periods and other provisions.

Performance reviews

Every year, managers and employees take part in performance interviews in which a number of important issues are discussed regarding the employee's performance, results and development (general and career-specific). This cycle of performance interviews enables us to get a good idea of our employees' development potential. Our subsidiaries decide for themselves how performance interviews are to be arranged within their organization. However, TKH plays a strong advisory role in this process and encourages them to ensure that staff members have a performance interview mid-way through the year, and a performance review at the end of each year. This cycle enables us to work specifically on developing the skills that the employees need to perform their duties. The ultimate goal is to have performance interviews for all employees within the group. At this point, 80% of employees have had performance interviews. This is comparable with last year. This means that we fell short of our target of completing at least 90% of performance interviews. One of the foremost reasons for this is that during the year under review job descriptions were updated to reflect the prevailing situation; they now form a significant basis of the performance reviews, among other things. For that reason, this year, we expect an improvement in the number of interviews we complete.

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

Training, knowledge development and knowledge sharing

The entrepreneurial spirit and the scale of the business units appeal to many employees who regard TKH as an organization in which they can achieve personal growth and operate with a high degree of independence and responsibility. TKH's innovative spirit also contributes to its appeal. Accordingly, TKH has a growing reputation as an interesting organization to work for.

We devote attention to developing our employees in order to increase their professionalism and broaden their employability. Education and training are an indispensable part of maintaining our knowledge level. We organize in-company training with the support of external professionals so that this matches normal practice at TKH as closely as possible. We encourage a major part of learning ability to be developed through the work itself. Knowledge exchange between our subsidiaries also contributes to this. In addition, employees attend external training and education courses. In the past year we have also organized knowledge exchange through webinars, including sessions for financial controllers. The advantage this has is that current topics can be dealt with effectively and efficiently. Participants also have the opportunity to pose their own questions so that the group can learn from each others' questions. We intend to hold webinars more frequently this year in order to stimulate knowledge development.

A Management Development (MD) Program for young TKH managers with growth potential was established in cooperation with Nyenrode Business University in Breukelen.

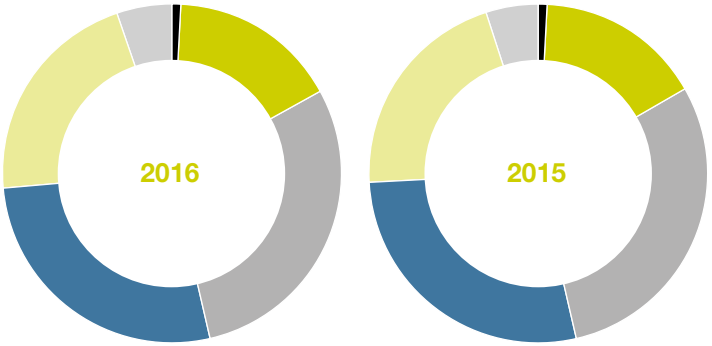
The subsidiaries must include an annual plan of action in their strategic plans for education and training and must make a budget available for this purpose. The funds devoted to external training in 2016 amounted to € 2.5 million (2015: € 2.2 million). Expressed in hours, our employees spent 21 hours on education and training (2015: 17 hours), whilst our target was at least 16 hours per FTE on a yearly basis. The target was therefore comfortably achieved.

Terry Arden, CEO of LMI Technologies, with the 'Best Company Award'.

In its search for new talent, TKH maintains close contacts with business schools and universities. We have a close relationship with educational institutes that provide job-specific or management training courses. We offer work placements in order to attract potential talent at an early stage.

We think it is important that our operating companies can learn from each other and we select individual or clusters of subsidiaries as a benchmark for the entire group. Every year, the best performing TKH company receives an award. Criteria for nomination include financial performance, growth in profits over the year, the company's ability to innovate, entrepreneurship shown and business developments. In the year under review LMI Technologies ('LMI') received the TKH award. LMI is a trendsetter with its 3D laser scan technology, which is used in fields such as inspection and quality-control systems. The innovative character of the company, its financial results and, not least, its entrepreneurship, with a successful geographic expansion into Asia and Europe, proved decisive.

EMPLOYEES CLASSIFIED ACCORDING TO AGE in %



	2016	2015
< 20	1	1
20 - 29	17	16
30 - 39	29	30
40 - 49	27	28
50 - 59	21	20
59 >	5	5

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

Health & Safety

It is our duty to provide a healthy and safe working environment for our employees and for everyone concerned with the activities of TKH. Our organization focuses on prevention of industrial accidents. We do this not least by communicating via a regular safety bulletin and by registering accidents and near misses.

The number of registered industrial accidents in the organization rose from 96 in 2015 to 99 in 2016. However, it is important to understand that the proportion of employees in a manufacturing environment rose last year due to the roll-out of the investments. Moreover, we have noticed that the number of accidents involving temporary workers is relatively high. This means that supervision needs to be in order, with clear instructions on how to go about the work. Fortunately, there were no serious accidents resulting in permanent injury. The number of days' absence as a result of an industrial accident has been reduced substantially.

The safety policy has a high priority in the production organizations. Suitable measures have been taken to improve safety awareness such as information sessions and drawing up clear instructions for machine safety. There is strict supervision of the mandatory wearing of safety shoes and protective clothing. And we also encourage employees to confront each other in relation to potentially dangerous situations. The production companies are certified for the health & safety management system OHSAS 18001, embedding health & safety in the organization.

The percentage of absenteeism in 2016 was 2.98%, at the same low level as the result for last year (2015: 2.91%). This puts our absenteeism well below the average for the industry in the Netherlands, which is 4.0%. Sick leave management is primarily the responsibility of the line manager of the sick employee. The main aim of the sick leave policy is to manage and reduce short and medium-term sick leave. During the period of sick leave,

managers must maintain frequent contact with the employee concerned to further motivate him or her to return to active employment as soon as possible. Employees who report sick are immediately referred to the relevant occupational health and safety doctor or specialist. This means that the employee receives immediate medical attention and the company is informed at an earlier stage of the diagnosis, method of treatment and anticipated date of recovery. In addition, we provide physiotherapy on site and such things as workplace ergonomic assessments preventing absenteeism and to help optimize working conditions. We organize ergonomic lifting training sessions for employees whose work involves physical strain, with a potential risk of physical injury. All of this ensures that the employability and fitness for work of our employees is maintained and promoted. Training sessions on how to deal with absenteeism are organized for line managers, with a specific focus on mental and stress-related complaints. The aim of such sessions is to identify problems at an early stage and to be able to respond pro-actively in order to prevent absenteeism.

Good employment practices, ethics and integrity

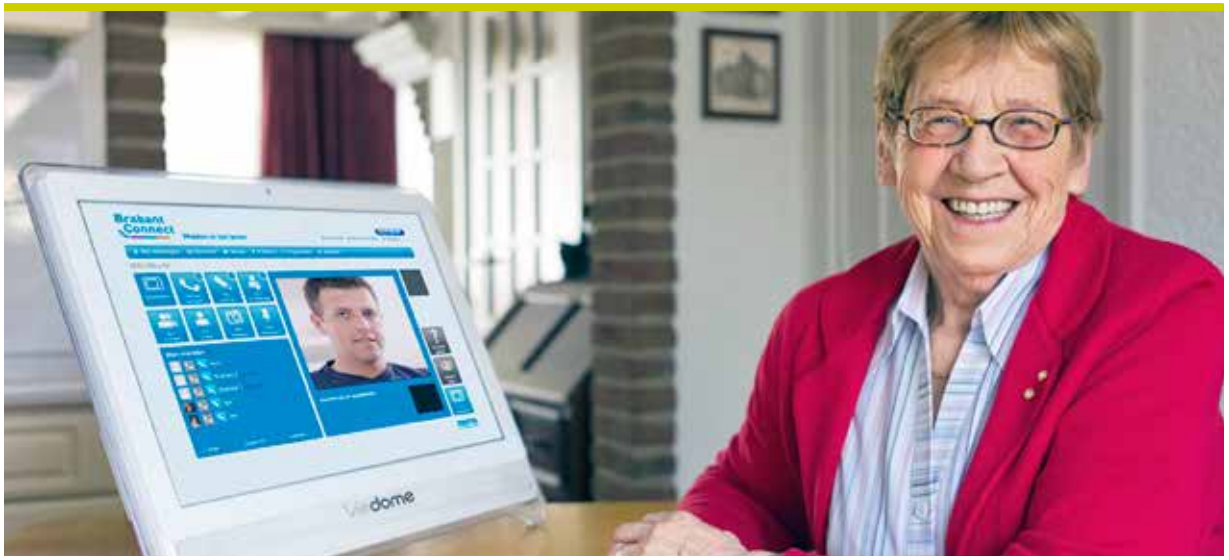
In order to measure our status as a good employer, we carry out employee satisfaction surveys (ESSs) about every three years. The surveys provide important input regarding the motivation, satisfaction and expectations of our employees. Follow-up surveys also measure the effects of improvement actions. We carry out these surveys in collaboration with a specialized market research agency. The total average score for employee satisfaction was 7.2, which was on a comparable level with that of last year (7.3), but above the benchmark level of 7.0. Research conducted in the year under review indicates that the score for the security aspect was again high, at 8.2 (2015: 8.1), followed by working conditions and collaboration, both scoring 7.5 (2015: 7.3 and 7.4 respectively). One item for improvement is communication with a score of 6.6. At 82% (2015: 73%), the response was good, putting it well above the industry average of about 70%. For us, this is a sign that our employees feel committed to the organization and understand the importance of such surveys.

Culture and code of conduct

TKH has a decentralized organizational structure, assigning responsibilities as far down as possible in the organization. This approach leads to an entrepreneurial culture, in which employees have an eye for technological developments and an active marketing strategy. Sharing knowledge, using each other's sales and distribution channels and developing products jointly contribute to the progressive innovation of products and expansion of the product portfolio. Business risks are limited by a tight and clear delineation of responsibilities and powers that is monitored via an extensive dashboard. An open, transparent culture in which the organization is open to criticism is a condition for appropriately dealing with risks, responsibilities and powers, and for recognizing them in good time.

The provisions in the TKH code of conduct are an underlying principle of how we do business. It outlines the role that TKH wants to play in society and its core values that are derived from our mission and ambition. The code of conduct describes how TKH's employees should behave and do business in various circumstances and situations.

To ensure that every employee receives the code of conduct and behaves according to it, it has been decided that every employee will confirm in



writing that they have received the code of conduct and that they will act in accordance with it. The boards of all subsidiaries have also confirmed in writing that they have complied with the procedure for making the code available to all employees. The code of conduct has been signed by 97% of the total number of employees. We have not yet been able to reach the target of 100%, as we are active in some countries where the law does not recognize the concept of a code of conduct. We are in close contact with these subsidiaries and engage in dialogue with the local works councils about the usefulness and necessity of a code of conduct. Within the TKH organization as a whole, compliance with the code of conduct is closely monitored. The Internal Auditor's program includes procedures on compliance in that respect. The code of conduct can be downloaded from TKH's website.

Part of the code of conduct is a whistleblowers regulation. All employees of the TKH Group may report suspicions of wrongful conduct within TKH. Such a report will not affect the position of the whistleblower if the report is made in accordance with the procedure established for this purpose. Employees may consult a company confidential officer' appointed for this purpose within their own organization or the TKH Group 'compliance officer'.

If a report is made to a subsidiary, this must immediately also be reported to the TKH Group's compliance officer, who is a central point of referral for integrity issues. The latter, acting together with the Executive Board, deals with the report and, if desirable, consults the company confidential officer of the subsidiary concerned. After the report has been investigated, the Executive Board makes a decision in consultation with the board of the subsidiary concerned or a representative of that board.

Due to amendments to Dutch legislation, the TKH Whistleblowers framework has been adjusted accordingly. In a training day, company confidential officers in the Netherlands were informed of the amendments to the law, the adjustments to the framework and the manner in which reports should be made and followed up. The whistleblower framework can be downloaded from TKH's website. One integrity issues was reported to the compliance officer last year and was related to inaccurate credit card use. Appropriate measures have been taken.

PLANET

THE EFFECTS OF THE BUSINESS ON THE NATURAL ENVIRONMENT.

Our environmental policy is designed to achieve continuous improvement of the environmental performance and minimize the burden on the environment. In order to have an insight into environment-related elements, all our production companies are certified for the ISO 14001 environmental management system. This management system provides insight into the possibilities of improving environmental performance. Moreover, it focuses permanent attention on our environmental performance.

At all our production companies, from the initial design stage, the raw materials and other materials used are chosen so that they have little or no harmful impact on the environment. The amount of energy consumed during the production processes is also analyzed regularly and reduced further where possible through innovative measures and investments. The finished products comply with the European REACH and RoHS directives. REACH is a European system for registering, evaluating (risks to people and the environment) and authorizing chemical substances in Europe. RoHS is a European directive that prohibits certain hazardous substances from being used in electrical and electronic devices.

Energy and emissions

We have had a program for reducing energy consumption for years. In this program, the consumption of fuels (litres), electricity (KwH) and natural gas (m3) is monitored. At 70% of the total KwH consumed, electricity consumption is the largest in terms of absolute volume, owing to its use in the production process, lighting, ventilation, air-conditioning and extraction systems. Gas represents 26% of the total KwH usage and is used for space heating in buildings and, to a much smaller extent (< 5%), process heating. Diesel and fuel oil are used primarily in Asia and constitute 4% of total consumption.

TKH measures its carbon footprint according to the Greenhouse Gas (GHG) protocol to measure the impact of its activities on the environment. This is a measurement of greenhouse gases converted into CO_2 equivalents, with a distinction made between two main categories: direct and indirect CO_2 emissions.

- The category of direct CO_2 emissions includes fuel gas and other fossil fuels (natural gas, LPG, diesel), as well as, to a lesser extent, leased cars and the company's vehicle fleet.
- The indirect CO_2 emissions are related to electricity purchased.

Within TKH, indirect CO_2 emissions constitute a significant part of the total carbon footprint and are 87% of total CO_2 emissions.

From 2016, new internal targets have been set for energy and CO_2 reduction:

- 5% energy reduction in 2020 compared to the reference year 2015.
- 2.5% CO_2 reduction in 2020 (reference year 2015).

At the same time, we have altered the scope to subsidiaries in manufacturing, distribution and warehousing environments. In the past few years, we have successfully implemented energy savings. Energy consumption in subsidiaries within an office environment has stabilized over the past years, also because the nature of activities does not materially affect energy consumption. For that reason, we have removed these subsidiaries from our scope, but we will of course continue monitoring consumption.

Energy consumption in 2016, expressed in KwH, rose 4.1% compared to the reference year, 2015. Total energy consumption, relative to turnover, rose 7.8% compared to 2015. CO_2 emissions in 2016 rose 3.8% compared to 2015, and relative to turnover by 7.4%.

In the year under review, investments were made in manufacturing facilities, resulting in an increase in energy consumption. However, consumption to date cannot be recouped by the output resulting from these investments. Among other things, this applies to the new factory for sub-sea cable systems in Lochem (the Netherlands) and the new site for VMI tire building systems in Leszno (Poland). The planned roll-out of new business associated with this is expected to make a contribution as from mid-2017. In addition, investments have been made at existing facilities in additional manufacturing capacity, including at Commend in Salzburg (Austria) where capacity for communications technology was doubled leading to a rise in energy consumption. Turnover for TKH as a whole in 2016 was moreover lower than in 2015, which has a significant

PLANET

THE EFFECTS OF THE BUSINESS ON THE NATURAL ENVIRONMENT.

ENERGY CONSUMPTION

+4.1%

CO_2 EMISSION

+3.8%

impact on the calculation of energy and CO_2 reduction. Moreover, the targets must be spread over a 5-year period, whereas they are now compared to a 1-year period.

We have made a start on making our energy consumption sustainable by 'greening' our own electricity consumption through purchasing so-called green certificates. These represent a guarantee from us, as a consumer, to purchase a certain amount of electricity generated from renewable energy sources.

In addition to this, we will also further explore possibilities for innovative production techniques and efficiency improvements in the value chain. Our stakeholders have defined a reduction in CO_2 emissions as a material issue for TKH's sustainability policy. We consider it our moral duty to keep making a contribution to this issue.

Fleet vehicles

The 'greening' of our fleet will also help to reduce CO_2 emissions. For the new fleet, we are restricting allowable CO_2 emissions to a maximum of 135 grams/km. According to European directives, this must be reduced to 95 grams/km by 2020, which has also been set as a target within the TKH Group. The average CO_2 emission in grams/km of TKH's existing Dutch lease fleet in 2016 was 101.8 grams/km (2015: 108.7 grams/km). The additions to the leased fleet in 2016 had average CO_2 emissions of 89.5 grams/km (2015: 88.7). In our commercial vehicle fleet, 21.5% of the cars are now hybrid and electric (2015: 18%). This shows that TKH's sustainability policy is being successfully translated to our fleet policy.

Reducing waste and the use of raw materials

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

Our policy is aimed at eliminating waste to such an extent that the impact on the environment and society is minimal. This also helps us avoid unnecessary costs.
We have adopted two approaches to this:

- Quantitative: we aim to reduce the quantity of waste at source structurally by increasing material productivity. By improving processes and by making innovations it will be possible to reduce waste streams.
- Qualitative: we aim to minimize the damaging effect of the waste. This entails combating the depletion of raw materials by using recycled materials and optimizing waste treatment by promoting greater co-operation throughout the value chain.

In the year under review, the total waste from the most relevant raw materials compared with production volumes dropped by 15.0%. This means that we are comfortably achieving the annual target of reducing waste by 5%. A nice improvement in waste from aluminium due to the investment in a so-called 'conformity line' for the production of aluminium conductors for cable production was achieved. The conformity line means that it is now possible to produce the aluminium to order length ourselves, whereas we previously had to purchase stock on the basis of fixed lengths from various suppliers. This created a lot of waste from off-cuts.

71.9% of the waste has subsequently been recycled, whereas our target had been set at 50%. Our copper supplier reprocesses pure copper waste into fully usable copper. So the figure for copper was almost 100% waste

recycling. Plastics that have become unusable during the cable production process but are suitable for recycling are offered to waste processing companies with a view to turning them into new raw materials. In this regard, we are conducting intensive discussions with waste sorting companies in the region. 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. This has also led to an improvement of the percentage of waste recycled.

We are taking sustainability criteria into account in selecting raw materials and other materials, alongside price and quality, of course. The value chain also plays a large part in successfully introducing sustainable product innovations. We have become one of the chain partners in '100% circular use of materials in the underground infrastructure'. By working closely with partners in the chain, we will achieve the innovation that is necessary to fulfill our ambitions. An important subject for future consideration in that respect is increasing the availability of sufficiently high-quality recyclables for new products, and the acceleration of the recovery of high-quality recyclables from waste streams. Under a pilot project we are now procuring recycled material from Sweden, and it is our strong preference to be able to do so closer to our production site.

RECYCLING

71.9%

WASTE REDUCTION

15.0%

PROFIT

A CONDITION FOR THE COMPANY'S CONTINUITY.

ROS

10.9%

ROCE

20.1%

PROFIT

A CONDITION FOR THE COMPANY'S CONTINUITY.

TKH applies a strategy designed to achieve added value and thus safeguard the continuity of the business. We attach great importance to a stable and entrepreneurial climate. TKH wishes to achieve healthy annual earnings growth per share, for example by boosting turnover growth and establishing a strong position in the high-potential business sectors of telecoms, building solutions and industrial solutions. The objectives are continually measured and, where necessary, adjusted. TKH's most important financial objectives are announced in the Report of the Executive Board.

Taxation

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

We follow these developments and are transparent to the tax authorities in the countries where we operate. One of the elements of the BEPS project is that tax is paid where the economic activity and value creation mainly occurs. TKH's tax position is consistent with this and follows the normal exercise of its operations and reflects the strategy and the geographical spread of its activities. TKH does not use tax havens for the purposes of tax avoidance. Furthermore, the basic principle is that TKH is compliant with national and international legislation and regulations.

Another consequence of the BEPS project is that TKH prepared a so-called Country-by-Country report ('CbC') with effect from the 2016 calendar year. This CbC report will be made available to the tax authorities of the countries in which TKH operates.

The table below shows and actual tax paid in 2016 in each region. This also includes the revenues and the number of FTEs in the relevant region. The tax paid is often different from the calculated tax charge for the year due to temporary differences, deferred taxes and uncertain tax positions.

In 2016, TKH paid a total of € 25.8 million in income tax. As at 31 December 2016, an amount of € 5.9 million in profits tax is 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.

ACTUAL PAID TAXES IN 2016

In thousands of euros (unless stated otherwise)	Netherlands	Europe (other)	North America	Asia	Other	Total
General information						
Aggregated revenues realized by companies in the region, without elimination of intercompany deliveries	642.505	534.037	101.332	186.900	15.387	1.480.161
Number of FTE's	1.916	2.253	356	931	53	5.509
Taxes (paid) / received						
Current tax payable at 1 January 2016	-4.566	-1.763	-516	-753	-326	-7.924
Income tax paid to authorities in 2016	-11.195	-8.657	-2.520	-2.819	-559	-25.750
Current tax payable at 31 December 2016	-3.613	-1.417	-326	-584	4	-5.936

POSITIONING

SAFEGUARDING OUR GOOD REPUTATION.

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

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

Sustainable product portfolio

TKH strives for a balanced, sustainable product portfolio with innovative concepts perfectly tailored to customer demand. Sustainability criteria play an increasingly important role in this. In process innovations such as automation and robotization, there is a growing need for efficiency. These are interesting developments for us, which we can exploit with our technologies and total solutions and use to differentiate ourselves in the market.

Based on our innovation objective, we are also devoting attention to sustainable innovation. We have set ourselves the target that at least 15% of our turnover should derive from innovations introduced in the previous two years. The proportion of innovations in turnover was 19.0% in 2016.

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.

Sustainable customer relations

TKH constantly tries to exceed the customer's expectations by offering best-in-class solutions. Against that background, customer intimacy plays an important role within the organization. We know what our customers do and are able to provide tailor-made solutions. To achieve this, our employees have to put themselves in the position of our customers and try to divine their wishes and requirements. We also want to understand how our customers rate us and find this out using customer satisfaction surveys (CSSs). Based on the outcomes of these surveys, we can take specific action to serve our customers even better. As in the case of ESSs, the CSSs are conducted in a cycle of once every two to three years, depending on the action and improvement points from previous surveys. In 2016, too, the average score in the CSSs was 8.0, which is above the benchmark. Account management and our service level scored highest with 8.4. Complaints resolution scored lowest with 7.2. At 29% (2015: 31%), the response to the CSSs was somewhat low.

We want to supply solutions that satisfy the established quality standards. Our service should also be of the highest possible quality. In spite of this, we cannot always avoid customer dissatisfaction. Good complaints registration and resolution are thus a top priority. In 2016, over 70.1% of all complaints were resolved within 1 week (2015: 67.8%). We set a target of resolving at least 60% of all complaints within one working week. Obviously we want to further reduce the number of complaints. The CSSs show that the quality of complaints resolution is most important for the customer, along with the speed of resolution and communication. As far as we are concerned, these are areas in which work is ongoing to improve matters.

Our activities may cause nuisance in the surrounding area. We do our best to prevent or minimize nuisance and have adopted various internal guidelines and measures for this purpose. We register and manage internal and external environmental complaints, take suitable corrective and preventative measures, provide timely information to those

POSITIONING

SAFEGUARDING OUR GOOD REPUTATION.

CUSTOMER SATISFACTION

8.0%

COMPLAINTS RESOLVING

70.1%

concerned and endeavour to prevent or limit liability risks. In the past year, we received 3 complaints about noise disturbance that we were able to resolve (on consultation with those reporting the complaints) satisfactorily.

Code of supply

TKH has a zero tolerance policy when it comes to unethical behaviour and we expect our suppliers to adhere to the same standards. Our requirements are drawn up in a code of supply, which targets such issues as human rights, the environment, health, safety and ethical behaviour. Every supplier that provides goods to the TKH Group worth in excess of € 1 million must sign the code of supply. In the event that a supplier does not respect one or more of the requirements outlined in the code, we expect the supplier to take action to satisfy the requirements 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. We realize that the ability to fully meet certain standards depends to some extent on the local circumstances of the supplier or the manufacturing location. If this situation makes it difficult for suppliers to comply with the agreed standards, we will enter into a dialogue with them to try and find a satisfactory solution. The code of supply has been signed by 77% of the suppliers to whom the criteria apply. This puts us well on track to achieving the target of 100% signed codes in 2017. The code of supply can be downloaded from the TKH website. The year after the code of supply has been signed, there must be an assessment of the supplier in question to review items stipulated in the code. In the year under review we drafted an unambiguous manual with instructions on how to check those items, plus an assessment form. This form must first be filled in by the supplier, on the basis of which we can open discussions. The implementation of the assessment form was in mid-2016, so the assessments and site-visits in the year under review have not yet reached the 100% mark, but are currently at 75%.

Human rights

We conduct our business activities in accordance with the 'Universal Declaration of Human Rights', which provides, among other things, that all parties in society, including companies, are obliged to respect and safeguard human rights. We call attention to this in both our code of conduct and our code of supply. Human rights form part of the OECD guidelines, which we use as a reference framework for our CSR policy. This makes the issue of human rights open to discussion in our operations. As it is an important issue in the code of supply and an important element in the assessment, this shows how our suppliers deal with human rights and we can quickly see individual 'unfavourable' effects in the field of human rights that are indirectly linked to our operations. The internal auditor covers this aspect as part of his auditing activities at the subsidiaries and questions our managers about their observance of human rights and whether there are any potential human rights conflicts that could arise, mainly in the value chain in which we operate.

Community, Integrity

Integrity is one of TKH's core values. Acting with reliability and integrity is something we do as a matter of course. The TKH code of conduct provides guidelines that clearly express the importance of acting with integrity. We also cite the OECD guidelines. We strictly ensure that there is no corruption in any form at any level in our company. Control mechanisms are built into our tax and financial administration, among other areas, to this end. In the year under review, we have started the process of overhauling our code of conduct, not least in view of social developments at national and international level and because of tightening of guidelines. The new code will be implemented in 2017.

Anti-competitive behaviour

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

Sanctions

In the event that sanctions are imposed on our company, we will explain the cause and the corrective actions that have been taken. In 2016, we did not incur any sanctions.

Community investments

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

In 2016,TKH has spent 0.4% of its net profits before non-recurring income and expenses, on sponsorship and donations to charity (2015: 0.3%).

CSR outlook

From reporting year 2017, the legal requirements for transparency on non-financial information and diversity in the directors' report of publicly-listed companies will be tightened as a result of the implementation of EU legislation. Under the revised Corporate Governance Code, greater transparency will also be expected on aspects that touch on CSR, including diversity. We have already included most of these topics in our reporting, not least because our reporting is in line with the criteria for the Transparency Benchmark, but we will probably have to further tighten up reporting on a few points.

VMI in Epe (the Netherlands) has made preparations to achieve certification for both the CSR performance ladder and ISO 26000 in 2017.

Our CSR performance ladder certification allows us to demonstrate objectively that our CSR management system is proper. Nonetheless, we are receiving increasing requests from customers and investors to supply separate information on platforms such as CDP, Fira and Vigeo. In the coming reporting year, too, we will act very selectively in terms of promises relating to information provision via third-party platforms.

Further to the successful stakeholder dialogue in the year under review we will also organize a similar meeting in 2017, in which we will, once more, tackle current issues. We view the stakeholder dialogue as an important opportunity for communication, one where we can review our CSR policy with the target groups important to us. We will also get the necessary input that spurs us on to improvements in our policy and our approach to it.

VMI expands production capacity with new facility in Poland

In November, the ground breaking ceremony for the new production facility of VMI Group in Leszno, Poland took place. The new facility in Poland will help shorten the delivery time of VMI's high-end tire building systems. The state-of-the-art production facility will produce according to the latest Lean principles, and it is expected to be operational mid 2017.

In relation to initiatives in the value chain, we will also act selectively in the near future, only considering participation in those initiatives that have a direct overlap with our activities. We will intensify existing value chain initiatives this year.

As far as our employees are concerned, we shall continue to do our utmost to provide them with an inspiring, challenging and safe environment in which to work. With regard to HR, we want to provide our people with direction so that everyone can contribute to developments at TKH. Our priorities in the area of People remain undiminished. In the context of continuing education and training, we will be deploying webinars and e-learning tools more frequently. This way, we aim to reach a large group of employees efficiently, broadening their knowledge in an effective way. And this year we will be starting a series of mini-master classes for strategic middle-management. We will be using short teaching modules to explain industry-specific programs. And the Management Development program will be followed up.

OUTLOOK

The global economic outlook is generally positive. At the same time, uncertainties such as the geopolitical developments, the economic developments in China and low oil prices continue to have a negative impact on the willingness to invest in certain sectors. In order to respond to the market developments, we decided in the course of 2016 to further increase our R&D efforts and focus on acceleration of the growth programs within our vertical growth markets. This has created a strong foundation to safeguard our growth ambitions for the coming years.

Based on the implementation of our growth plans, together with the defined building blocks for growth and associated roll-out of new technology, we see a better starting position for growth in 2017 compared to a year ago. The expectation is that growth will materialize from 2018. The steps taken in 2016, provides confidence that we are on the right track. This creates a solid basis for our expectation to again increase turnover in the defined seven vertical growth markets of € 300 million and € 500 million in the coming three to five years.

Barring unforeseen circumstances, we expect the following developments for the year 2017.

Telecom Solutions

We expect a further increase in investments in optical fibre networks in Europe and China. Due to our investments in market penetration within Europe in recent years, TKH's growth potential will be focused primarily on Europe. The scarcity of optical fibre in the Chinese market will decline in the course of 2017, which may result in pressure on margins.

Building Solutions

We expect the reluctance to invest in the oil and gas industry to continue. At the same time, we do see growth in the Marine & Offshore segment given the start of our subsea cable systems activities. In addition, the technological developments in the Machine Vision portfolio will enable TKH to further expand its market share with advanced technology.

Industrial Solutions

Investments in the industrial sector combined with robotization and automation are increasing, which means we expect to be able to realize growth in the sub-segment industrial connectivity systems. There is continuing reluctance to invest in China in the sub-segment manufacturing systems, but we see a large number of projects outside China that we expect to come to realization in the coming year. The order book at the start of 2017 is filled better than it was a year earlier, and on balance, we expect higher order intake in 2017 compared to last year.

As usual, TKH will give a concrete outlook for the full-year 2017 profit at the presentation of its interim results in August 2017.

SUPERVISORY BOARD

MEMBERS SUPERVISORY BOARD

Mr. H.J. (Herman) Hazewinkel RA
(1949 - Dutch), *chairman*

- 2005 First appointment
- 2017 Term limit

Former chairman of the Executive Board VolkerWessels

Current positions
- Vice-chairman Supervisory Board Royal Boskalis Westminster NV
- `vice-chairman Supervisory Board Schiphol Group NV
- Chairman of Supervisory Board Soweco NV
- Chairman of Executive Committee, Stichting Continuity ASR
- Member of Executive Committee, Stichting Administratiekantoor "Slagheek"
- Non-executive partner Quadrum Capital BV

- Chairman Selection and Appointment Committee
- Member Audit Committee

Mrs. M.E. (Marike) van Lier Lels
(1959 - Dutch), *vice-chair*

- 2006 First appointment
- 2018 Term limit

Professional supervisor / independent director - former COO Schiphol Group

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

- Chair Remuneration Committee
- Member Selection and Appointment Committee

P.P.F.C. (Philip) Houben
(1950 - Dutch)

- 2009 First appointment
- 2017 Term limit

Former chairman of the Executive Board Wavin NV

Current positions
- Member Supervisory Board Stork Technical Services
- Chairman Supervisory Board NV HVC
- Chairman Foundation Priority Antea Participaties

- Chairman Audit Committee

R.L. (Rokus) van Iperen
(1953 - Dutch)

- 2011 First appointment
- 2020 Term limit

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

- Member Remuneration Committee

A. (Antoon) De Proft MSc
(1960 - Belgian)

- 2014 First appointment
- 2018 Term limit

Managing Director ADP Vision

Current positions
- CEO & President Septentrio Satellite Navigation
- Chairman Executive Board IMEC
- Chairman Executive Board Quest For Growth,
- Director Barco

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board oversees the policy of the Executive Board and the general day-to-day business of the company and its affiliated businesses. The Supervisory Board advises the Executive Board, is guided in performing its duties by the interests of the company and its affiliated businesses and takes into account the relevant interests of the company's stakeholders. The members of the Supervisory Board are selected so as to provide a good representation of knowledge, experience and insight in relation to live topics at TKH, and markets and activities relevant to TKH. The Supervisory Board is governed by by-laws, which include rules covering such matters as the tasks, decision-making and competencies of the Board.

Meetings during the year under review

In the year under review, five regular meetings were held which were attended by the Executive Board. At one meeting, one member of the Supervisory Board was unable to attend due to pressing reasons. In the case of inability to attend, the Supervisory Board member in question informs the chairman before the meeting of her/his views on the subjects to be discussed. Once the meeting has concluded, the absent member of the Supervisory Board is informed in person about the matters discussed. During the year under review, there were no subjects on the agenda that could potentially give rise to conflicts of interest. The discussion of the annual results took place in the presence of the external auditor.

The Supervisory Board met twice in the absence of the Executive Board. In March 2016, the Remuneration Committee explained the remuneration proposal for the Executive Board after which the Supervisory Board approved the proposal. In October 2016, the evaluation of the performance of the Supervisory Board, its committees and the Executive Board, as well as the cooperation with the Executive Board, were discussed during a closed meeting. This took place under the guidance of an external expert.

In preparation for the regular 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. The most prominent repeating agenda items are the strategic roadmap, financial developments, Investor Relations, acquisition possibilities, investments and divestments, technological developments and organizational and market developments. The content of the press releases surrounding the annual and half year figures are discussed with the entire Board prior to publication. The content of the press releases regarding the trading updates is discussed with the chairman of the Supervisory Board.

With a view to monitoring the strategic roadmap and the progress of strategic initiatives, the Executive Board provides an explanation at every meeting of the 'strategic scorecard'. This includes explanations of the 'high-lights' and 'low-lights' per solution segment, as well as the related action points for the short and medium term. Examples of matters discussed are general market developments, contracts won and the progress of technological developments that could impact the core business. Organizational changes within operating companies are also explained. In 2016, frequent attention was once again paid to TKH's vertical growth market strategy, with a specific focus last year based on a 'deep dive' for the vertical growth markets Marine & Offshore and Fibre Optic Networks. The Supervisory Board was informed about the general market developments in the relevant growth markets, TKH's value proposition in this regard, the challenges TKH faces and the further execution of the strategy. The separate growth markets are also on the agenda when there is cause for a strategic recalibration of the presented growth scenarios. To get a clearer idea of the execution of the strategic (investment) programs, the Supervisory Board visited the new production facility in Lochem (the Netherlands), where sub-sea cable systems are being manufactured. The optical fibre cable unit in Haaksbergen (the

Netherlands) was also visited. The aim of these company visits by the Supervisory Board is also to meet the local management and gain greater insight into the team's operational performance and challenges.

In the year under review, autonomous growth and integration of activities were once again the key focus points. Acquisitions remained limited to the airport lighting activities of HELLA, a leading portfolio based on innovative LED technology that reinforces the strategic activities of TKH in its vertical growth market Tunnel & Infra. This acquisition was discussed and approved by the Supervisory Board in the year under review in view of its strategic importance to our existing activities in the field of CEDD technology. Within the context of the strategic reorientation of TKH's portfolio, the sale of the activities in the management and exploitation of parking facilities (P&P) was discussed. The Board has approved the sale of these activities because the service operations of P&P did not really fit in with TKH's strategic focus on developing advanced proprietary technologies.

Regular meetings

At its meeting in March, the Supervisory Board discussed the financial statements for 2015 included as part of the TKH annual report. The external auditor presented its findings in relation to the audit of the financial statements. The chairman of the Audit Committee reported on its meeting. In addition, the Supervisory Board discussed the dividend proposal that was presented at the AGM in April 2016.

Topics discussed during the meeting in April covered (profit) developments in the first quarter and the preparations for the AGM. Also the acquisition possibilities for the airport lighting portfolio of HELLA were considered and approved.

In August, the half-year figures were discussed. The chairman of the Audit Committee reported on the Audit Committee meeting. At the initiative of the Executive Board the subject of bringing forward conversion of the existing financing arrangements into a new multi-year financing agreement with more favourable conditions was discussed. The Supervisory Board agreed that this course of action should be pursued. The local management of the sub-sea cable production site in Lochem gave a presentation about the progress of this facility, the equipment, the cable types and logistics. After the meeting, a tour of the production facility took place to give the members of the Supervisory Board an idea of its layout. The Board was very impressed with the high-grade technologies used to produce the sub-sea cable systems.

In the October meeting, the results of the third quarter were discussed. The Executive Board explained the developments in the vertical growth markets Marine & Offshore en Fibre Optic Networks. The Supervisory Board observed that TKH changed its strategic focus at the right time, given the reluctance towards investments in the oil and gas industry, with a focus on the market for sustainable energy generation, such as wind farms. The Selection & Appointments Committee reported on the selection procedure for possible candidates for the Supervisory Board in the context of the schedule for retirement. The desired profiles were discussed and adopted.

The 2017 budget and the 2017 investment plan were discussed and approved at the December meeting. The progress of the talks with the banking group for a new financing arrangement were explained. The developments in the HR field were also addressed with attention being paid to the Management Development program and the results of employee satisfaction surveys in 2016. The organizational structure was explained, including in relation to the way in which the Executive Board monitors the setup and effectiveness of the internal risk-management systems. The cultural aspect was discussed in relation to the TKH organizational structure and the international character of the company. It was observed that the culture within TKH is given frequent attention, partly as a permanent element of the employee satisfaction survey. The progress made in the area of Corporate Social Responsibility (CSR) was also elaborated on. The Supervisory Board was informed abou the steps taken during the year under review as well as of the focus areas for the coming years. The steps taken have led to greater transparency, which has been confirmed by a significantly higher score on the transparency benchmark. The Supervisory Board recognizes the relevance of CSR and observes that it is well embedded in the TKH organization and that it is a full-fledged item of the strategic agenda.

Some Supervisory Board members discussed the business strategy and the general state of affairs with the Central Works Council. Topics were

considered that are actual within the separate Works Councils, where the Central Works Council asking specific for attention to be paid to the long-term employability of employees. A member of the Supervisory Board attended the annual Works Counsel Day. The Board regards the consultation with the Central Works Council as being open, constructive and valuable.

The Executive Board and the Supervisory Board are responsible for the Corporate Governance structure at TKH and compliance with the Corporate Governance Code ('Code'). Compliance with best practice provisions as well as any non-compliance are discussed yearly with the Executive Board. An explanation of the Corporate Governance Code is given on pages 75-79 of the annual report. The main changes in the revised 2016 Dutch Corporate Governance Code were discussed, as well as the possible consequences.

Committees

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

The Selection and Appointments committee comprises Mr H.J. Hazewinkel (chairman) and Mrs M.E. van Lier Lels. The committee's role includes preparing the selection criteria and appointment procedures for members of the Supervisory Board and Executive Boards, as well as assessing the size and composition of both boards and drafting a profile of the Supervisory Board. The chairman of the Selection and Appointments Committee carries out individual performance review meetings with the members of the Executive Board once every year. Last year the Selection and Appointments Committee focused closely on the selection and nomination of candidates relating to the vacancies arising in the Supervisory Board. The committee also prepared the evaluation of the Supervisory Board together with an external advisor. The Selection and Appointments Committee reports the most important results of each of its meetings to the Supervisory Board.

Visit of Supervisory Board to TKF Telecom in Haaksbergen (the Netherlands).

The Remuneration Committee comprises Mrs M.E. Van Lier Lels (chair) and Mr R.L. van Iperen. The committee advises the Supervisory Board on the remuneration policy for the Executive and Supervisory Boards and makes proposals in this regard. The Remuneration Committee reports the most important results of each of its meetings to the Supervisory Board. The Remuneration Committee met once during the year under review. During the meeting, the remuneration policy and the realization of the targets of the Executive Board were evaluated and subsequently discussed with the chairman of the Executive Board. On the basis of the realized targets, the outcome was presented to the full Supervisory Board and decisions on the remuneration were made at the closed meeting of the Supervisory Board in March 2016.

The Audit Committee comprises Messrs P.P.F.C. Houben (chairman) and H.J. Hazewinkel, with the latter of the financial expert in accordance with the Dutch Corporate Governance Code. Mr. E.D.H. De Lange, CFO of TKH, served as an advisor. The chairman of the Audit Committee reported the most important results of each meeting to the Supervisory Board. The Audit Committee had three regular meetings during the year under review. These regular meetings were held together with the external auditor EY, the CFO, Internal Auditor and Director Finance & Control of TKH. At the initiative of TKH, the Tax Manager of TKH was also invited to two meetings to provide an explanation of general fiscal developments on

Visit of the Supervisory Board to the new sub-sea production location of TKF in Lochem (the Netherlands).

topics specific to TKH's tax situation, including developments relating to so-called 'Country by Country (CbC) Reporting'.

An ongoing consideration for the committee is the company's internal risk management and control system. Subjects that were also dealt with were taxes, the possible impact of the new IFRS 15 standard and impairment analyses.

The Internal Auditor gave a presentation of the findings of the internal audit activities at both the March and August meeting. At the August meeting, EY explained the Update Letter and in December the subsequent Management Letter containing the findings in the field of the administrative organization and internal control insofar as relevant for the audit.

In April, an extra Audit Committee meeting was held to prepare for the AGM. At this meeting, the evaluation of the external auditor was also discussed. The Audit Committee evaluates the performance of the external auditor annually with regard to the quality of the audit activities, the adequacy and fulfillment of the audit, and the quality and depth of the reports and any additional contributions. The Committee discusses its findings with the external auditor, as well as with the Supervisory Board and Executive Board. The evaluation of the external auditor was prepared using the points for attention and improvement drawn up independently of one another by both TKH and EY. This formed a sound and objective basis for the Audit Committee to discuss this topic.

The chairman of the Audit Committee also held a one-to-one discussion with the external auditor in 2016 in accordance with best practices provision III.5.9 of the Dutch Corporate Governance Code. It was also established that the external auditor is independent of TKH.

The Audit Committee discussed a number of times over the year the development of cyber crime in relation to the measures that need to be taken to avoid or prevent cyber risks. The cyber crime expert used a number of practical examples to explain the risk of cyber crime and how to recognize and prevent them at an early stage. The Audit Committee concluded that the topic of cyber crime and cyber risks has a high priority within TKH and is embedded in the risk-management system.

Performance Supervisory Board and Executive Board

The self-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 of the Supervisory Board, 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 this self-assessment, it was concluded that the Supervisory Board has functioned well, both collectively and as individual members. The open relationship is marked by mutual respect. The members complement each other sufficiently in the context of their role in advising the company, and they cover a good range of focus areas. At this closed meeting the Board addressed the points set out in best practice provision III.1.7 of the Dutch Corporate Governance Code. It was established that every member of the Supervisory Board is independent within the meaning of best practice provision III.2.2 of the Code.

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

Diversity

The composition of TKH's Supervisory Board is characterized by diversity of gender, background, experience and nationality. From existing and proposed legislation, requirements are made towards achieving a quota of at least 30% women and 30% men on the Supervisory Board, insofar as these seats are occupied by natural persons. This target has not been reached at present on the Supervisory Board, and only one of the five members is a woman. In its composition, the Supervisory Board strives for diversity among its members with regard to age, gender, area of expertise and social background. The aim is to strike a balance that reflects the aforementioned diversity. When vacancies (excluding reappointments) arise, the quota will be one of the points of attention. The decisive factor when filling vacancies is the quality, expertise and experience of the candidate.

Schedule of retirement

At the end of the AGM of 3 May 2017, Messrs H.J. Hazewinkel and P.P.F.C. Houben will step down in accordance with the schedule of retirement. The regulations of the Supervisory Board and the articles of TKH state that Mr Houben may be reappointed for a further period of four years. Mr Houben has indicated that he is available for reappointment. In the case of Mr Hazewinkel, the statutory mandated term of office of three periods of four years has expired, creating a vacancy in the Supervisory Board. Given the need to safeguard continuity within the Supervisory Board, the selection process is also factoring in that in 2018 there will also be a vacancy for the position of Mrs M.E. Van Lier Lels, whose statutory mandated term of office will expire in that year. In terms of its diversity and the related target percentage, the Supervisory Board applies the principle that at least one of the two available positions should be filled by a female candidate. Moreover, Mr Hazewinkel serves as the financial expert in the Supervisory Board in accordance with provision III.3.2 of the Dutch Corporate Governance Code. To fill these vacancies, candidates were sought with broad, international experiences at management/director level within an international (technology) company. One candidate should have a financial background.
After a careful selection procedure, Mrs C.W. (Carin) Gorter and Mr J.M. (Mel) Kroon MBA are willing to take a seat on the Supervisory Board. Mrs Gorter is the financial expert in accordance with the Dutch Corporate Governance Code.

The Central Works Council was notified of the reappointment and the vacancies and profiles of prospective candidates. Neither the reappointment of Mr Houben, nor the vacancy due to Mr Hazewinkel stepping down and no longer being eligible for reappointment, are subject to a special right of recommendation from the Central Works Council, as described in Section 19 (8) of the company's articles of association. However, the vacancy created by the appointment of an extra Supervisory Board member is subject to the special right of recommendation of the Central Works Council. The Central Works Council has stated that it does not wish to invoke its right of recommendation for the reappointment of Mr Houben or for the vacancy created due to Mr Hazewinkel stepping down. The Central Works Council has stated that it does however wish to invoke its special right of recommendation for the vacancy for an extra Supervisory Council member and recommends Mrs Gorter for this vacancy.

The AGM was informed about the vacancies and the associated profiles as well and was given an opportunity to recommend to the Supervisory Board candidates for nomination to the Supervisory Board that would satisfy the relevant profile. The Supervisory Board will recommend both the reappointment of Mr Houben and the appointment of Mrs Gorter and Mr Kroon to the AGM. With the nomination of the new candidates and the reappointment of Mr Houben, the Supervisory Board will temporarily -until the date of retirement of Mrs van Lier Lels in 2018- be expanded to six members.

With Mr Hazewinkel stepping down, the position of chairman has become vacant. The Supervisory Board has conducted a careful procedure to assess whether the new chairman should come from the Board's own ranks or whether it should be one of the candidates to be nominated. The Board expressed its preference to appoint a chairman from the ranks of the Supervisory Board and is delighted to report that Mr A. (Antoon) De Proft Msc. is prepared to fulfill this role, making him the successor of Mr Hazewinkel as chairman of the Supervisory Board after the 2017 AGM has concluded.

Annual financial statements for the 2016 financial year

The Report of the Executive Board and the 2016 financial statements were submitted to the Supervisory Board in accordance with the provisions in Article 31 of the articles of association. The financial statements were submitted for auditing to Ernst & Young Accountants LLP ('EY'), which subsequently issued an unqualified auditor's report on the financial statements. 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 6 March 2017. The Supervisory Board submits the financial statements for the 2016 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 that the Executive Board must give of its management and the Supervisory Board must give of its supervision of the management. The Supervisory Board also proposes to approve the proposed profit appropriation and to discharge the Executive Board in respect of the policies pursued and the Supervisory Board in respect of the supervision conducted.

Finally

During the year under review, good progress was made in the strategic development of TKH. The focus on the four core technologies and on the seven vertical growth markets led to a further integration of activities. In the year under review, a great deal of attention was given to the R&D roadmap and the planned roll-out of the new business related to this. TKH is managing to maintain an effective balance on the financial performance on short and long term in the realization of margins on one hand and, on the other hand, the necessary investment in R&D to safeguard the continuity of TKH and its value-creation developments for the longer term. That creates a stronger foundation for the future.

The commitment, involvement and quality of the staff within TKH are decisive factors in TKH's successes. We therefore express our sincere gratitude and thanks to the Executive Board and to all staff for their extraordinary efforts yet again in the year under review. We would also like to thank the shareholders and holders of depositary receipts of shares for the confidence they have shown in the company.

Haaksbergen, 6 March 2017

On behalf of the Supervisory Board,
H.J. Hazewinkel, *chairman*

Word of gratitude

Mr Hazewinkel has been involved in TKH as a member of the Supervisory Board for a period of 12 years, serving as chairman from 2006. The Supervisory Board would like to express its sincere gratitude and thanks to Mr Hazewinkel for the outstanding way in which he fulfilled his role as chairman. The Board has benefited greatly from his management experience and his professional expertise in the financial field. He carried out his role as chairman with a great deal of dedication and was very involved in developments at TKH.

M.E. van Lier Lels, *vice-chair*
P.P.F.C. Houben
R.L. van Iperen
A. De Proft Msc.

REMUNERATION REPORT

This report issued by the Remuneration Committee details the remuneration policy and the remuneration received by the members of the Executive Board. The remuneration policy is formulated by the Remuneration Committee and approved by the Supervisory Board. The remuneration policy was adopted by the General Meeting held on 28 April 2005. Any future significant policy changes will be submitted to the General Meeting. Note 35 of the financial statements include a schematic overview of the remuneration of the Executive Board.

Remuneration policy

The policy aims at providing a competitive compensation package to attract, motivate and retain qualified managers for a publicly listed company, while considering TKH's size and unique characteristics. The compensation package is measured periodically against market trends using information provided by external experts. The compensation package is structured so that both short- and long-term goals are maintained. The Remuneration Committee prepares as of 2010 according to the determined targets, scenario analysis (best practice provision 11.2.1 Corporate Governance Code) in relation to the STI and LTI that should be achieved.

Remuneration

The remuneration payable to the members of the Executive Board comprises a basic salary (TRI), pension, a variable element comprising an annual performance bonus (STI), and a long-term bonus (LTI) scheme entailing a share scheme. The compensation for the members of the Executive Board was checked in 2014 against external market conformity and on this basis adjusted.

Basic salary (Total Regular Income: TRI)

Each year, the Supervisory Board determines whether and to what extent, the basic salary will be adjusted, taking into account the developments in this regard in the market and within TKH.

Performance bonus (Short Term Incentive: STI)

Variable remuneration represents a major component of the remuneration package for the Executive Board. The performance bonus is related to targets and criteria. Yearly, the targets and criteria, on which the performance bonus is based, are set. The amount of the performance bonus is determined by the extent to which targets and criteria are met. The maximum performance bonus has been set at 60% of basic salary (TRI). The Supervisory Board, on recommendation of the Remuneration Committee, sets the performance bonus amount on the basis of the targets and criteria that have been met. The realization of 50% of the maximum bonus is based on EBITA-targets and 30% is based on autonomous revenue growth targets. The other 20% of the maximum bonus is determined by the realization of personal targets and criteria. Realization 'at target' results in a bonus of 40% of basic salary (TRI). The Supervisory Board has the discretionary power to depart from the set targets where exceptional circumstances arise. The realization of the targets and criteria for 2016 resulted in 68% of the maximum performance bonus for the Executive Board, equal to 41.0% of basic salary (TRI). The Supervisory Board has the discretionary power to recover from the Executive Board the variable remuneration granted that is based on false (financial) data. Payment to the members of the Executive Board is made under the condition of accuracy of the relevant (financial) data. This is in line with the Claw Back legislation that is in force as from 1 January 2014. There is no 'change of control' paragraph included in the employment contract of the members of the Executive Board.

Share scheme (Long Term Incentive: LTI)

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

exchange at that moment. The development of ROS and ROCE as well as the share price development in comparison to the -for TKH- relevant AMX-index, result in share allotment. The long-term targets for the Executive Board relate to the TKH-objectives set in this annual report. The scheme sets a maximum allotment of 32,000 (depositary receipts of) shares per Executive Board member per annum. The shares in question are to be held as a long-term investment and may not be sold for a period of three years. Based on the realized targets for 2016, Mr J.M.A. van der Lof has been allotted (depositary receipts of) shares with a value of € 324,832, Mr E.D.H. de Lange (depositary receipts of) shares with a value of € 243,623 and Mr A.E. Dehn (depositary receipt of) shares with a value of € 199,617. At the same time, each member of the Executive Board has to purchase the same number of (depository receipts of) shares, for the same amount that has been allotted. These share transactions will be executed after the publication of the annual results at the average closing price of the three trading days as from the date of publication of the annual results. The table in the financial statements, note 35 -remuneration key management-, include the value of the allotment that has been grossed for income tax purposes.

Peer Group

The Remuneration Committee consults independent remuneration advisors to match remuneration data from companies from the peer group with remuneration data of TKH. The labour market peer group consists of the following companies: Aalberts Industries, Accell Group, ASML, Belden, Group Schneider (France), Leoni (Germany), Kendrion, Nedap, Prysmian Group and Royal Ten Cate.

Pension

The Remuneration Committee supervises that Executive Board members' pension is in line with generally accepted standards and ensures that it is compatible with the pension schemes available for similar 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 pension in the event of death subject to conditions similar to those applicable to participants in the collective pension fund. See also notes 17 and 35 of the consolidated financial statements.

Personal loans

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

Remuneration policy Supervisory Board

The General Meeting adopted the remuneration of the members of the Supervisory Board in 2015. The remuneration of a member of the Supervisory Board does not depend on the company's results. The remuneration of the chairman of the Supervisory Board is € 47,000 and of the members of the Supervisory Board € 36,000. The annual remuneration for every participation in a Committee of the Supervisory Board is € 8,000 for the chairman and € 6,000 for other members. A remuneration for the membership of the Selection and Appointment Committee is not yet granted. No options are granted to the members of the Supervisory Board.

CORPORATE GOVERNANCE AT TKH

On 8 December 2016, the Monitoring Committee Corporate Governance Code published the revised Corporate Governance Code (´Code 2016´). Dutch listed companies are expected to report in 2018 on compliance with the revised Code for the 2017 financial year. The Code 2016 entails a number of important changes in relation to the provisions of the Corporate Governance Code ('Code'). In the coming months we will analyze in more detail what the changes in the Code 2016 mean for TKH, how the provisions can be complied with and which provisions cannot be complied with, so that we will provide a reasoned account of this in the 2017 Annual Report.

The Code has been designated for the 2016 financial year as code of conduct referred to in Article 2:391(5) of the Civil Code. This means that statements concerning the principles and best practice provisions from the Code are made in this Report.

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 Corporate Governance structure within TKH is based on the requirements of the Dutch Civil Code, the articles of Association and the Dutch Corporate Governance Code (the 'Code') and various internal regulations.

Corporate Governance structure

TKH Group NV is a public limited company under Dutch law. 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 Code. The Code contains principles and best practices for Dutch companies with listed shares. Deviations from the Code are explained in accordance with the 'comply or explain' principle set out in the Code. TKH complies with the majority of the recommendations contained in the Code and continuously tests whether it is possible to realize improvements in compliance with the Code. In accordance with the recommendation of the Corporate Governance Monitoring Committee, the main outlines of TKH's Corporate Governance structure, as well as compliance with the principles and best practice provisions, including an explanation of the deviations, were discussed in the General Meeting of Shareholders on 27 April 2010. The Corporate Governance structure has not changed substantially since then. If significant changes in the structure and in the compliance with the Code occur, these will be presented to the General Meeting of Shareholders for their discussion as a separate item on the agenda. In this chapter we provide a brief outline of the recommendations from the Code, together with an explanation of the points on which the company departs from the Code with a careful statement of its reasons for doing so, and a description of proposed implementing measures designed to further improve the Corporate Governance structure.

On 7 May 2013, the General Meeting of Shareholders endorsed the proposal for TKH to apply the limited two-tier entity regime voluntarily. The main difference between the full regime and the limited regime is that the members of the Executive Board are no longer appointed and dismissed by the Supervisory Board, but by the General Meeting of Shareholders. This appointment by the General Meeting takes place by binding nomination of the Supervisory Board and is in compliance with the Code. The articles of association of TKH were last amended on 15 May 2013.

Executive Board

The Executive Board is charged with managing the company, which means, among other things, that it is responsible for achieving the company's objectives, the strategy and associated risk profile, the development of results and corporate social responsibility issues that are relevant to the business. The Board is also responsible for compliance with all relevant law and regulations, for managing the risks associated with the company's activities and for financing the company. Any conflict of interest or appearance of conflict of interest between the company and the Executive Board shall be avoided. The Supervisory Board supervises this. The Executive Board currently comprises three members. For practical reasons, the Executive Board has created an internal division of duties, which indicates the responsibilities of individual members for specific functional and business areas. The members of the Executive Board are appointed by the General Meeting of Shareholders by binding nomination of the Supervisory Board. In this context, the company's articles of association contain the following rules:

- The General Meeting of Shareholders can cancel the binding nature of a nomination by resolution passed with an absolute majority of the votes cast, representing at least one-third of the issued capital.
- If the General Meeting of Shareholders has cancelled the binding nature of a nomination on two occasions, it is free to appoint a member of the Executive Board for the vacancy, on the understanding that it can only do so with an absolute majority of the votes cast, representing at least one-third of the issued capital, and in compliance with the other requirements laid down in TKH's articles of association.

The General Meeting of Shareholders may suspend or dismiss a member of the Executive Board:

- If the Supervisory Board has proposed the suspension or dismissal of a member of the Executive Board to the General Meeting of Shareholders, the General Meeting of Shareholders may resolve to do so with a simple majority of votes.
- If the Supervisory Board has not put forward a proposal, the General Meeting of Shareholders may only resolve to suspend or dismiss a member of the Executive Board with an absolute majority of the votes cast, representing more than one-third of the issued capital of TKH, and in compliance with the other requirements laid down in TKH's articles of association.
- A member of the Executive Board may be suspended by the Supervisory Board at any time.

The Executive Board, as well as each individual member of the Executive Board, is independently authorized to represent the company.
TKH endorses the principles relating to 'Role and procedure' (II.1), 'Remuneration' (II.2) and 'Conflicts of interest' (II.3) as set out in the Code, unless otherwise mentioned below. TKH also endorses the accompanying best practice provisions. The rules governing the Executive Board also reflect these principles and best practice provisions to the extent that they are relevant to and applied by the company.

TKH has the following reservations:

- The best practice provision with respect to the maximum term of appointment of four years (II 1.1) 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 1982 and was appointed as a member of the Executive Board in 1998. Mr. E.D.H. de Lange MBA has been employed by TKH since 1998 and was appointed as a member of the Executive Board in 2008. TKH's point of view with respect to them both is that existing contractual agreements, prior to the adoption of the Code, cannot be broken and that existing contracts of employment are respected. The best practice provision does apply to Mr. A.E. Dehn,

who entered into service at TKH and was appointed as a member of the Executive Board on 1 August 2011. At the General Meeting of Shareholders on 7 May 2015, Mr. Dehn was reappointed by the General Meeting of Shareholders for a further 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 2019.

- The remuneration policy is presented in the remuneration report, which forms part of the Report of the Supervisory Board. A scenario analysis prior to the drafting and adoption of the remuneration policy has been added as an element of this. There is a share plan rather than a share option plan for the members of the Executive Board. The share plan involves a financial contribution for the Executive Board since the individual members must buy the same number of shares as the number that are awarded 'free of charge' within the framework of the plan. Due to the financial contribution by the members of the Executive Board, it is stipulated that the shares must be held for at least three years (best practice provision II.2.4. and II.2.5.). With respect to best practice provision II.2.8, the severance payment is a maximum of one year's salary. The existing employment contracts of the members of the Executive Board do not include a 'change of control' clause (best practice provision II.2.14).

With respect to the provisions of chapter II.2 relating to the remuneration policy and report (best practice provisions II.2.10 to II.2.15), for an explanation of these provisions we refer to the remuneration report, which forms part of the Report of the Supervisory Board. If there is a change in the value of a conditional award of variable remuneration components for the Executive Board (best practice provision II.2.10), this will be reported in the remuneration report.

Supervisory Board

The role of the Supervisory Board is to supervise the policies of the Executive Board and the general affairs of the company and its affiliated business and to assist the Executive Board by providing advice. In performing its duties, the Supervisory Board shall be guided by the interests of the company and its affiliated business and shall take into account the relevant interests of the company's stakeholders. The Supervisory Board also have to address corporate social responsibility issues that are relevant to the company. The Supervisory Board consists entirely of non-executive directors and all members are 'independent' as defined in best practice provision III.2.2. The Supervisory Board currently consists of five members, whereby it is proposed to the General Meeting in 2017 to expand the number of Supervisory Board members temporarily to six. With regard to the appointment of Supervisory Directors, the articles of association of the company include the following:

- Members of the Supervisory Board are appointed by the General Meeting of Shareholders on the recommendation of the Supervisory Board. The General Meeting of Shareholders may reject the nomination by an absolute majority of the votes cast, representing at least one-third of the issued capital. If the General Meeting of Shareholders does not appoint the nominated person and does not resolve to reject the nomination, the Supervisory Board shall appoint the nominated person.
- Account is taken of the criteria referred to in the profile when nominating candidates.
- The Central Works Council and the General Meeting of Shareholders may recommend candidates for the Supervisory Board.
- The Central Works Council has a special right of recommendation in respect of one-third of the members of the Supervisory Board. If the Supervisory Board rejects the recommendation, it shall enter into consultations with the Central Works Council. If the Supervisory Board and the Central Works Council fail to reach agreement, the Enterprise Division shall make the final decision.

The members of the Supervisory Board are appointed for a period of four years, after which reappointment may follow. In accordance with the Code and articles of association, a member of the Supervisory Board can be reappointed twice for a full term after a first term of office. The time of resignation of members of the Supervisory Board is recorded in a retirement schedule. The Supervisory Board appoints from among its members a chairman and vice-chairman to replace the chairman should the occasion arise. The vice-chairman is also the point of contact for individual members of the Supervisory Board and directors concerning the functioning of the chairman.

The General Meeting of Shareholders may pass a resolution of no confidence in the Supervisory Board by an absolute majority of the votes cast, representing at least one-third of the issued capital, resulting in the immediate discharge of the members of the Supervisory Board. Prior to this, the Central Works Council must be given the opportunity to take a position on the matter. The Supervisory Board may suspend a Supervisory Board member.

TKH endorses the principles and underlying best practice provisions set out in chapter III of the Code as they relate to the Supervisory Board and applies them, unless otherwise stated below. The rules governing the Supervisory Board and the profile also reflect the principles and best practice provisions to the extent that these are relevant to and applied by the company.

- The Supervisory Board has a profile in which the aspects that are relevant to the company, with respect to diversity in the composition of the Supervisory Board and the specific objectives pursued by the Supervisory Board in terms of diversity on the basis of best practice provision III.3.1 are addressed. The current composition of the Supervisory Board is the point of departure for the annual evaluation by the Supervisory Board. At the moment, there is diversity in the Supervisory Board in terms of representation of both men and women and representation of more than one nationality. Further information about the composition and diversity in the Supervisory Board can be found in the Report of the Supervisory Board.
- The regulations of the Supervisory Board include rules on handling (potential) conflicts of interest between members of the Supervisory Board in relation to the company. The company also has a set of rules governing possession of and transactions in securities by directors and members of the Supervisory Board other than those issued by their 'own' company.
- In accordance with principle III.5, TKH has installed a Selection and Appointment Committee, a Remuneration Committee and an Audit Committee. Separate regulations have been drafted for each committee (III.5.1.). With regard to best practice provision III.5.13 concerning the possible use of the services of a remuneration consultant, the Remuneration Committee has assured itself that the relevant consultant does not provide advice to the Executive Board of TKH.

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 formulated in chapter IV of the Code and relating to the shareholders and applies them, unless otherwise stated below.

- Depositary receipts of shares (principle IV.2): Ordinary shares in the company, with the exception of registered shares, have been transferred by notarial deed to Stichting Administratiekantoor TKH Group ('Trust Foundation'). In exchange for these shares the Trust Foundation issues depositary receipts for those shares. The voting rights to the shares are vested in the Trust Foundation. If requested to do so by the holders of depositary receipts, the Trust Foundation must give them authorization to cast a vote, to the exclusion of the Trust Foundation, 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. The Trust Foundation is not required by law (Article 2:118a of the Netherlands Civil Code) to grant the proxy or may withdraw a proxy that has been given if a) a hostile public offer is announced or made or is expected to be made, b) one or more persons possess at least 25% of the depositary receipts and/or shares, or c) in the opinion of the Trust Foundation the voting right of a holder of a depositary receipt is fundamentally in conflict with the interest of the company.
  If the Trust Foundation avails of one of these possibilities, it must notify the holders of depositary receipts stating reasons.
- The Executive Committee of the Trust Foundation consists entirely of independent members. The Trust Foundation must exercise the rights attached to the shares in such a way that the interests of the company and its associated businesses and all its stakeholders are protected as well as possible.
- No depositary receipts have been issued for the cumulative preference financing shares, the cumulative protective preference shares, the priority shares or the registered shares. Further information about the capital structure of the company by means of the Takeover Directive

Article 1, paragraph 1, sub a, can be found in chapter "The TKH share' and in the notes to the financial statements.

- 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 an electronic proxy to vote in accordance with the e-voting system prior to the AGM (Principle IV.1).
- TKH does not comply with the provision that all shareholders should be able to follow the analyst meetings, presentations to (institutional) investors and press conferences at the same time by means of web-casting, telephone lines or otherwise (best practice provision IV.3.1.). TKH chooses for a transparent communication which is tuned to the audience, where the risk of transparency to competitors will be reduce as much as possible. Annually, this subject is evaluated on current events. TKH publishes its financial calendar on the website, which also includes analyst meetings and press conferences. The presentations from these meetings are placed on the TKH website. TKH has an investor relations policy which it has posted on its website (best practice provision IV.3.13). By providing relevant financial and other information properly and in a timely fashion, the applicable restrictions are observed and care is taken that relevant information is provided equally and simultaneously to all stakeholders and that it is available to them on its website.

Financial reporting and external auditor

TKH endorses the principles and the accompanying best practice provisions relating to 'Financial reporting' (principle V.1.), 'Role, appointment, remuneration and assessment of the functioning of the external auditor' (principle V.2.) and 'Relationship and communication by the external auditor with the bodies of the company' (principle V.4.), and applies them. The Audit Committee evaluates the functioning of the external auditor annually and advises on the nomination of the external auditor. At the Meeting of May 2014 the General Meeting of Shareholders endorsed the appointment of Ernst & Young Accountants LLP ('EY') as independent auditor for the financial years 2015, 2016 and 2017. The Audit Committee advised the Supervisory Board on this nomination, after which the Supervisory Board recommended the appointment of EY as independent auditor to the shareholders. The Audit Committee annually evaluate the performance of the external auditor and advises on the nomination of the external auditor. The Audit Committee has advised the Supervisory Board to recommend the appointment of EY as independent auditor for the financial year 2018 to the shareholders. TKH has appointed an Internal Auditor. The Internal Auditor falls under the responsibility of the Executive Board and has access to the external auditor and to the chairman of the Audit Committee (principle V.3. and best practice provision V.3.2).

Corporate Governance Statement

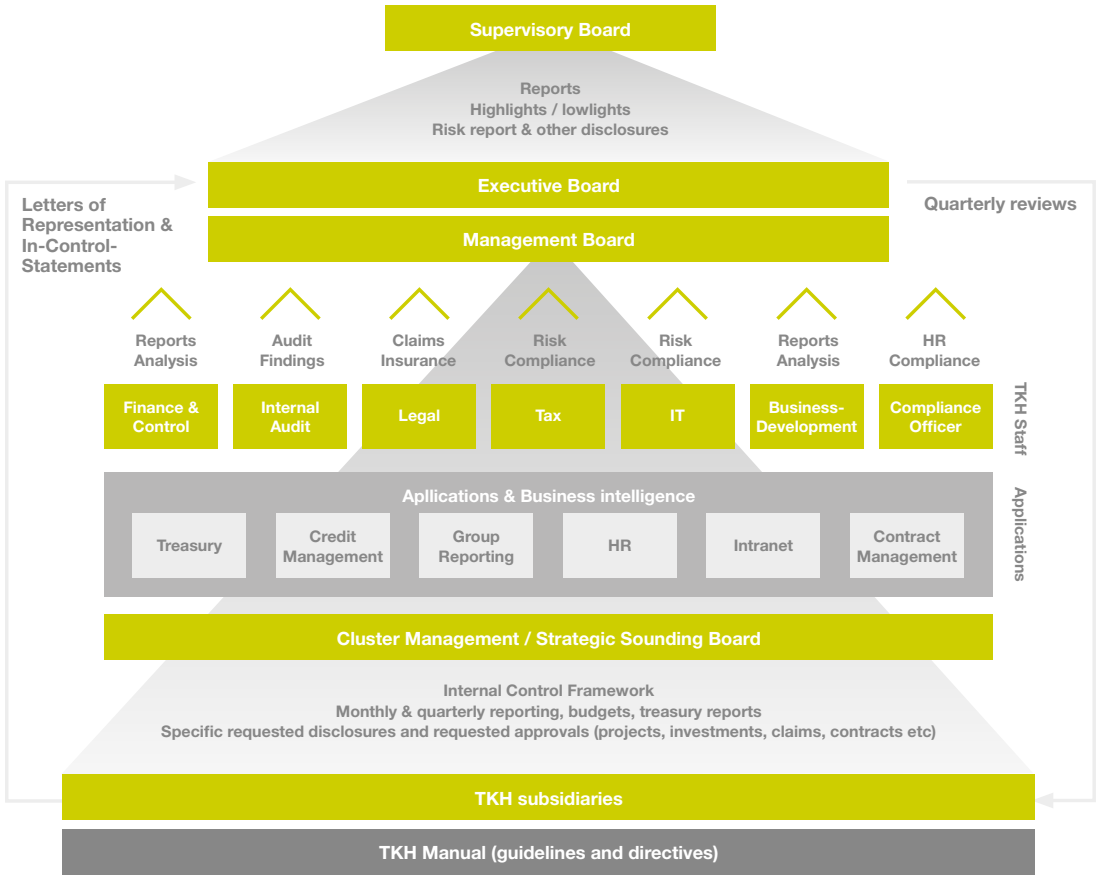
This is a statement concerning Corporate Governance as referred to in article 2a of the Decree laying down additional requirements for annual reports [Vaststellingsbesluit nadere voorschriften inhoud jaarverslag] effective as of 1 January 2010 (the 'Decree'). The information required to be included in 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 this annual Report 2016 and is deemed to be included and repeated in this statement:

- the information concerning compliance with the principles and best practices of the Dutch Corporate Governance Code as required by article 3 of the Decree can be found in the chapter on 'Corporate Governance at TKH';
- the information concerning the main features of the internal risk management and control systems relating to the financial reporting process as required by article 3a sub a of the Decree can be found in the chapter on 'Risk Management';
- the information regarding the functioning of the 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 chapter on 'Corporate Governance at TKH';
- 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 chapter on 'Corporate Governance at TKH', the 'Report of the Supervisory Board' and in the 'Report of the Executive Board';
- the information referred to in the Takeover Directive (Article 10) Decree as required by article 3b of the Decree can be found in the chapter on 'Corporate Governance at TKH', 'The TKH Share' and in the notes to the company financial statements.

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

RISK MANAGEMENT

RISK MANAGEMENT AND CONTROL SYSTEMS



The risk management policy of TKH, under the responsibility of the Executive Board, is an integral part of its strategic policy and receives constant attention. The aim is to optimally control the most important risks that TKH is or may be exposed to, to facilitate the reliable realization of operational and financial objectives and to ensure compliance with legislation and regulations. The risk management policy and the risks are regularly reviewed and discussed within the Executive Board, the Audit Committee and the Supervisory Board.

Risk management and control systems

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

- An Internal Control Framework (ICF) based on the 'Committee of Sponsoring Organizations of the Tread way 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, statutes and guidelines for decision-making procedures and authorities for the strategic management of our operating companies. Treasury policy is defined in this, as well as the various rules of conduct, such as an authority to sign a code of conduct and a whistleblower procedure. It also contains guidelines for internal management and control measures, for internal and external financial reporting, for insurance and how to deal with claims.
- For the design and maintenance of the financial accounts and reports, guidelines and instructions have been drawn up that comply with the applicable IFRS standards. This includes extensive budget and report processes, whereby the monthly results are analyzed in relation to the budget and the forecast for the entire year is revised if necessary.
- At least once a quarter, among other things, the results, the financial

position, the outlook and the risks identified for each operating company are discussed between the Executive Board and local 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 Auditor. Each operating company's main strategic, operational, financial and compliance risks are identified and evaluated and their potential impact on the company is determined. The results of these analyses are discussed with the Executive Board. The Internal Auditor discusses the most important findings of these assessments with the Audit Committee at least twice a year. The Executive Board, internal Legal Advisor, Director Finance & Control and the Compliance Officer also evaluate components of the risk management policy. The design, existence and operating effectiveness of the internal risk management and control systems for external financial reporting are also assessed by the external auditor in the context of the audit of the financial statements. The outcomes and impact of this on the audit strategy are discussed with the Executive Board and the Audit Committee.

TKH has a cascade system of 'Letters of Representation' and 'In-Control Statements'. The management and controllers of the operating companies confirm to the best of their knowledge:

- That the strategic, operational, financial and compliance risks have been analyzed and assessed;
- That the risk management and control systems with respect to external financial reporting risks functioned adequately in the preceding year;
- The accuracy and completeness of the information presented in the internal annual reports;
- The correct application of the TKH accounting principles as included in the TKH Manual.

Developments in 2016

In 2016 no risks and uncertainties occurred which had a significant impact on TKH.

In the year under review, the internal risk management policies were evaluated and a number of improvements were made. The risk assessments were updated. Continuous monitoring takes place in order to adjust the analyses to changing internal and external conditions if necessary. In addition, a start was made with the integration of the Internal Control Framework in the financial reporting system. In this way, risks and associated measures at operating company level will also be linked to the financial reporting, making the risk management process more effective and efficient. In 2017, the integration of the key processes and/or operating companies will be rolled out.

Furthermore, a number of TKH guidelines have been updated, partly due to changes in legislation and regulations such as the implementation of the so-called 'House for Whistleblowers Act'. There is also a continuous focus on the internal awareness of TKH guidelines by means of providing training materials and tools to operating companies and internal training courses, for example for the TKH confidential officers.

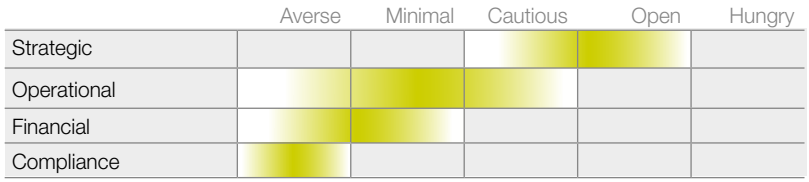
In 2016, an internal project was started in the context of an updated IT and Security Policy, with specific attention being paid to cyber crime and related IT risks. Attention is also paid here to the formalization and documentation of a number of IT sub-processes, particularly in the area of user and change management. This will be part of the IT audits in 2017.

On 8 December 2016, the Monitoring Committee Corporate Governance Code published the revised Corporate Governance Code ('Code 2016'). Dutch listed companies are expected to report in 2018 on compliance with the revised Code for the 2017 financial year. The 2016 Code among other things entails a number of important changes with respect to the Internal Audit function. In the coming months we will analyze in more detail what the changes in the new Code mean for TKH, how the provisions may be complied with, so that we can report on this in the 2017 annual report.

Risk appetite

It is the duty of the Executive Board to balance the business opportunities with 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 specifically sought between risk on the one hand and long-term sustainable growth on the other.

TKH RISK APPETITE 2016



Most important risks and measures

On the basis of risk analyses (impact and probability), the most important risks are identified and clustered into four categories: strategic risks, operational risks, financial risks and compliance risks.

- Strategic risks mainly relate to risks associated with an inadequate response to the necessity of creating distinctive, innovative and essential knowledge and expertise, as well as ensuring the effective utilization of qualified personnel. In general, strategic risks have an impact in the medium or long term and usually manifest themselves gradually over time.
- Operational risks mainly relate to project management, the availability of raw materials and IT, including the threat of cyber crime. Inadequate control of operational risks can have a significant negative impact in the short and long term.
- Financial risks often involve risks that directly or indirectly affect TKH's financial resources. These often include risks in the area of financial valuations, including raw material prices and currencies, but also the risks of uncollectable receivables on customers. The impact can be considerable if such risks are not properly managed.
- Compliance concerns both compliance with legislation and regulations and the enforcing of internal regulations such as the TKH code of conduct. Ensuring and promoting integrity is an integral part of this risk category. Inadequate control may, for example, lead to reputational damage and immediately have a significant impact.

The following overview shows the most important risks, with a high or medium impact and probability, for each category, as well as the related key measures to mitigate the risk.

RISK APPETITE

	DESCRIPTION OF THE RISK	MITIGATING MEASURES
	Strategic	
1	Global economic and geopolitical situation.	• Spread of activities across multiple product/market combinations. • Focus on vertical growth markets. • Internal efficiency programs and cost reduction programs. • Geographical spread across Europe, North America and Asia.
2	Speed of technological developments and new technologies from competitors.	• Realize at least 15% of the turnover with innovations that have been introduced in the two previous years. • Continuous focus on innovation and the R&D roadmap.

RISK APPETITE

	DESCRIPTION OF THE RISK	MITIGATING MEASURES
3	Shortage of well-qualified staff and inability to retain qualified staff.	• Performance / Talent management program in each operating company. • Management Development Program. • Regular staff satisfaction surveys. • Use good reputation as an attractive employer to recruit talented employees.
4	Unsuccesful integration of acquired companies.	• Procedures and guidelines for the implementation of a due diligence process. • Integration in the TKH reporting and control systems. • Harmonization of business processes and systems where necessary and desirable. • Continuous attention to the creation and utilization of synergy effects.
	Operational	
5	Deficiencies in project management.	• Investment in qualified staff. • Training and education of staff. • Guidelines and procedures with respect to project management. • Important projects are discussed at quarterly meetings between the Executive Board and local management. Major projects with above-average risks are monitored on a regular basis.
6	Important raw materials are unavailable or available in limited quantities.	• Purchasing raw materials from several carefully selected suppliers and concluding multi-year framework agreements with the suppliers of important raw materials. • The suppliers are selected by means of a vendor selection procedure with performance also being regularly analyzed. • Interest of 12.5% in the supplier of optical fibre preforms.
7	Decentralized IT landscape and use of different ERP systems can lead to complexity in the IT infrastructure and the IT policy, as well as cyber crime risks.	• TKH has issued guidelines setting out the requirements for an ICT infrastructure, including the most important IT controls, partly within the context of cyber crime risks. • Companies from the same region or cluster are stimulated to generate economies of scale in the ICT field where possible. • Important developments, trends and risks in the ICT field if applicable, are discussed between ICT managers of the most important companies. • The internal and external security environment is tested by a specialized external advisor.
	Financial	
8	Reporting risks in areas such as revenue recognition, goodwill valuation and impairment testing and valuation of inventories and construction contracts.	• Internal procedures and guidelines for internal and external financial reporting and internal and external verification of reports. • Controller meetings are regularly organized with important reporting issues being discussed. • Training and education of staff. • The performance of regular impairment testing, including the annually updated budgets. • Deployment of 'Business Intelligence' tools to gain insight into risks at an early stage. • Representation letter and In-Control Statement for each operating company.
9	Volatility of currencies.	• Treasury Statute that establishes the currency risk management, including responsibilities, authorizations and reports. • Material exchange rate risks are hedged in accordance with the Treasury Statute if these risks cannot be passed on in the market. • Exchange rate risk that arises from the translation of net investments in currencies other than the euro are partly hedged by financing investments in local currency. Monetary assets and liabilities in the same currency are netted as much as possible. • Time differences between the settlement of forward transactions and sales and purchase contracts are overcome by using foreign currency bank accounts or by rolling over forward contracts.
10	Volatility of interest.	• The interest risk policy is determined at TKH level. • Balances with credit institutions are compensated to minimize interest charges. • Long-term financing is attracted at variable rates and is if necessary fixed by means of interest rate swaps.

RISK APPETITE

	DESCRIPTION OF THE RISK	MITIGATING MEASURES

11	Volatility of raw material prices.	• Economic stock positions are limited as far as possible.
		• The copper positions of each operating company are monitored for the economic inventory positions, inventory prices, rate of turnover and expected relationship between copper prices and selling prices (price elasticity).
		• Price developments are incorporated as far as possible in the selling price of products and/or services or where possible hedged on the futures market.
		• Every month price developments, economic inventory 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.

12	Credit risk.	• The credit risk for cash and cash equivalents is run at major international system banks. • The principal credit risks relate to trade debtors. However, the risk is spread over a large number of customers that operate in various countries and in different markets. • Part of the risk is insured with credit insurance companies. In addition, part of the risk is transferred to factoring companies. The insurances and factoring mainly concerns receivables on customers in the connectivity and manufacturing systems sub-segments. These customers are mainly located in the Netherlands, France, Germany and Asia. • For orders mainly to international customers, TKH uses bank guarantees, advance payments (against a bank guarantee) or confirmed irrevocable Letters of Credit.
	Compliance	

13	Fraud and corruption.	• Internal guidelines relate to, for example, internal control measures, responsibilities and authorization requirements of the management, a code of conduct and a whistleblower procedure.
		• Monitoring of financial flows by TKH among other things 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;
		  ◦ the use of banks prescribed by TKH unless another bank is required at the local level because only a local bank is able to deliver the required service.
		• During controller meetings and the international management meeting considerable attention is paid to the identification and prevention of fraud and corruption.
		• 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 they 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).

14	Compliance with (tax) legislation and regulations.	• Centralized monitoring of compliance and developments in the field of (new) legislation and regulations related to tax, sanction regulation and developments in general. • In the context of horizontal supervision, there is open communication with the tax authorities. • Make use of external tax advisors for specialized subjects. • Tax Control Framework. • Internal tax reports. • Internal guidelines regarding compliance with sanction regulations, including a procedure in respect of supplies to sanctioned countries.

In addition to the most important risks as referred to aforementioned, other risks have been identified, with a low impact and probability, that are also included in TKH's internal risk management system. This includes, among other things, the following risks:

- Limited market share and brand awareness in a number of sub-segments.
- Dependence on government measures in a number of markets such as healthcare, construction and infrastructure.
- Niche specifications are becoming standard commodity solutions.
- Dependence upon customers and suppliers in a number of sub-segments.
- Disasters within production facilities.
- Infringement of IP rights of and by third parties.
- Pension risks.
- Inadequate funding.

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. Where possible, a sensitivity analysis is also included.

QUANTIFICATION OF RISKS AND SENSITIVITY ANALYSIS

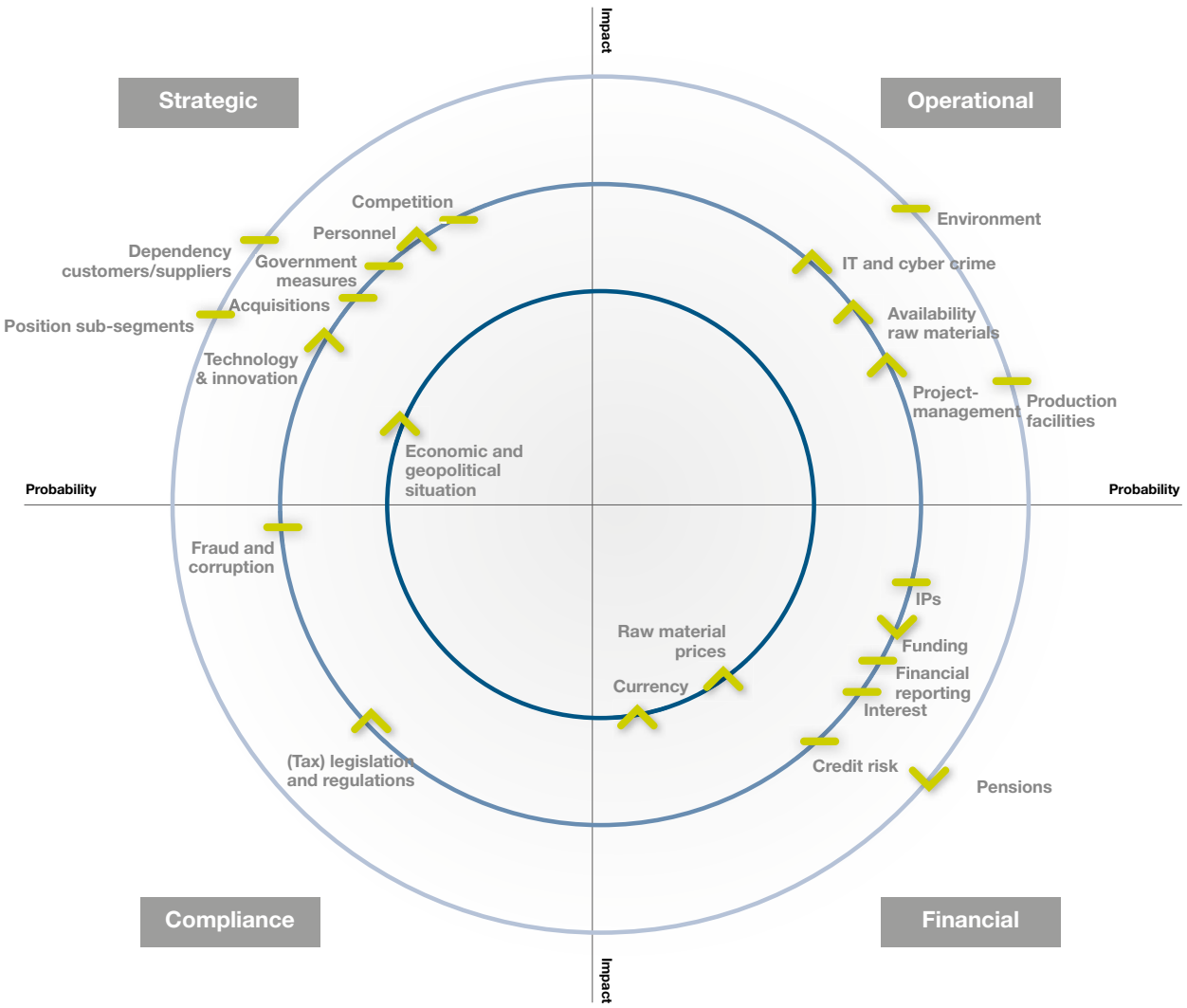
	MOVEMENT	IMPACT	ON	ASSUMPTIONS (BASED ON 2016 FINANCIAL STATEMENTS)	RELATE TO RISK
Turnover	1%	€ 6.8 million	EBITA	No adjustment of operating costs.	1, 2, 4, 6, 9, 11
Raw material price copper	10%	€ 2.2 million	EBITA	No derivatives to hedge price risks.	11
Gross margin	1%	€ 13.4 million	EBITA	No adjustment of operating costs.	1, 2, 4, 6, 9, 11
Operating costs	1%	€ 5.2 million	EBITA	No adjustment of turnover/gross margin.	operational and financial risks
Cash conversion cycle	1 day	€ 1.9 million	Working capital	All other variables remain constant.	financial risks
Currencies - financial instruments	10%	€ 2.3 million	Net result	All other variables remain constant.	9
Currencies - translation net assets	10%	€ 19.2 million	Shareholders' equity	All other variables remain constant.	9
Interest	1%	€ 0.8 million	Net result	Bank debt including deduction of interest rate swaps maintained at variable interest rates.	10
Interest - valuation financial instruments	1%	€ 1.2 million	Shareholders' equity	Based on concluded interest rate swaps.	10
Net debt	10%	€ 0.5 million	Net result	On the basis of stable interest rates and partly increase in USD debt.	10

In the financial statements, including note 21, the objectives and the TKH policy is included regarding the use of financial instruments for the purpose of risk management and also the hedging of risks associated with all the important types of transactions of which TKH is at risk for capital, liquidity, interest, currency, credit and price related risks.

Risk classification and trends

For each risk, TKH assesses the possible impact on the organization and the probability that this risk will occur (risk classification). The impact includes financial and non-financial factors such as reputation. The assessment takes the existing risk management systems at TKH into

RISK CLASSIFICATION AND TRENDS



Risk impact and probability	Trend compared to 2015
High impact and probability	Increased
Medium impact and probability	Decreased
Low impact and probability	Unchanged

account. A trend analysis comparing the situation with last year is also included. The model with risk classification and trends is a dynamic model that can modify due to changed external circumstances, or because of changes in the risk management systems.

Planned improvements in the risk management system in 2017

The risk management policy of TKH is an integral part of its strategic policy and receives constant attention. The aim is for optimization and efficiency of the risk management system as a whole. A number of objectives have been formulated for 2017 that are expected to improve the risk management system:

- Evaluation of the internal risk management system and the updating of the risk analyses based on changing internal and external conditions.
- Analyze in detail what the changes to the Corporate Governance Code 2016 entail for the risk management system and the Internal Audit function within TKH.
- Further integration of the Internal Control Framework in the internal financial reporting system.
- Implementation of a new TKH Manual that includes recent internal and external developments.
- Implementation of an updated IT and Security Policy, with specific attention being paid to cyber crime and related IT risks. Attention will also be paid to the formalization and documentation of a number of IT sub-processes, particularly in the area of user and change management. This will be part of the IT audits in 2017.
- Further roll-out of centralized monitoring of tax compliance at operating companies.
- Continuous focus on the internal awareness of TKH guidelines by means of providing training materials and tools to operating companies and training courses.
- Further professionalization of reporting by operating companies with respect to business plans and financial reports, as well as in the field of CSR, taxes and risks.

In addition to the above priorities, attention will be paid in 2017 to the implementation of IFRS 15 Revenue from Contracts with Customers.

MANAGEMENT STATEMENT

The Board of Directors 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.

The Executive Board assesses the strategic, operational, financial 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'.

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 II.1.5. of the Dutch Corporate Governance Code, the Executive Board declares that to the best of its knowledge:

- The risk management and control systems provide a reasonable assurance that the financial reporting does not contain any errors of material importance;
- The risk management and control systems worked properly in the year under review.

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

- The financial statements give a true and fair view of the assets, liabilities, financial position and profit of TKH and the companies included in the consolidation;
- The report of the Executive Board gives a true and fair view of the situation on 31 December 2016, the state of affairs at TKH and its affiliated companies during 2016, 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, 6 March 2017

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

Security solutions via iProtect for government agencies

Five major government agencies recently moved to a monumental building in The Hague and had the wish to optimally protect, maintain and manage the building. iProtect Security Management System from Keyprocessor was implemented, showing the integration of other security solutions from TKH companies: security camaras from Siqura, the video management system from VDG Security and the intercom system from Commend. Keyprocessor additionally installed 274 readers for optimal access control.

TKH SHARES

Listing

TKH's shares are listed on the Euronext Amsterdam stock exchange. TKH shares are traded on the Mid-Cap index (AMX). They are also included in the Next 150 Index created by Euronext. Options on shares in the TKH Group (ticker symbol: TKG) are listed on Euronext Liffe, the European derivatives business of Euronext. The options expire on the third Friday of the contract month and have an initial term of 1 to 9 months. Each option represents 100 TKH shares.

TKH share structure

Ordinary shares in the company, with the exception of registered shares, are transferred by notarial deed to the Stichting Administratiekantoor TKH Group (Trust Foundation). In exchange for these shares, the Trust Foundation issues depositary receipts.

The priority shares are managed by the foundation called Stichting Prioriteit, which is comprised of company board members. This foundation may not dispose of, or pledge or otherwise encumber the shares. No special rights are attached to priority shares.

Stichting Continuïteit TKH (TKH Continuity Foundation) is granted an option to acquire protective preference shares, which would allow it, if the option were exercised, to acquire a maximum stake of 50% in the issued share capital.

On balance at year-end 2016 the issued share capital amounted to 42,821,763 ordinary shares at a par value of € 0.25, of which 42,651,075 are certified, and 4,000 priority shares with a par value of € 1. At the end of 2016 the company had 660,575 (depositary receipts of) ordinary shares in its possession. Further information on the capital structure of TKH is included in note 7 of the company only financial statements.

As a result of the shareholders having chosen to receive a stock dividend, 408,249 new (depositary receipts of) ordinary shares were issued on 19 May 2016. The new (depositary receipts of) ordinary shares are ranked pari passu in relation to the existing (depositary receipts of) ordinary shares.

Changes in the number of (depositary receipts of) ordinary shares are shown in the table below.

CHANGES IN THE NUMBER OF (DEPOSITARY RECEIPTS OF) ORDINARY SHARES

	2016	2015
Number of ordinary shares issued as of 1 January	42,413,514	42,027,095
Stock dividend	408,249	386,419
Number of ordinary shares issued at the end of the financial year	42,821,763	42,413,514
Shares in possession of the company at the end of the financial year	660,575	689,535
Number of outstanding shares held by third parties at end of the financial year	42,161,188	41,723,979

In the context of the stock exchange listing on the Euronext Amsterdam, the following key figures per (depositary receipts of) ordinary shares apply.

KEY FIGURES PER (DEPOSITARY RECEIPTS OF) ORDINARY SHARES

	2016	2015
Annual turnover in shares	22,255,564	37,024,980
Highest price	€ 38.14	€ 40.50
Lowest price	€ 28.47	€ 25.35
Closing price	€ 37.59	€ 37.44
Net earnings per share	€ 2.04	€ 2.07
Dividend	€ 1.10	€ 1.10
Price/earnings ratio at end of financial year	18.5	18.1
Dividend yield on closing price	2.9%	2.9%
Market capitalization at end of financial year (x € million)	1,584.8	1,562.1

Disclosure of ownership and equity interests

Under the requirements for disclosing control and participation interests, any holdings in a company's issued share capital of 3% or more must be reported to the Netherlands Authority for the Financial Markets (AFM). As far as TKH is aware and on the basis of the AFM's Disclosure of Major Holdings in Listed Companies Act [Wet melding zeggenschap (Wmz)] register, the following investors have a holding of 3% or more in TKH.

DISCLOSURE OF OWNERSHIP AND EQUITY INTERESTS

Mandatory reporting company	Interest	Date of last report
Allianz Global Investors GmbH	4.98%	28-12-2016
ASR Nederland NV	5.11%	06-10-2008
BlackRock Inc.	3.13%	03-01-2017
Breedinvest BV	4.82%	10-03-2015
Darlin NV	5.29%	01-11-2006
Fidelity Investments	4.91%	20-11-2014
Kempen Oranje Participaties NV	3.77%	04-04-2011
Lucerne Capital Management, LLC	3.05%	05-07-2016
Navitas BV	5.75%	01-11-2006

Share issues

Shares are issued pursuant to a decision made by the Executive Board. The decision is subject to approval from the Supervisory Board. The scope of this authority on the part of the Executive Board is determined by resolution adopted by the General Meeting of Shareholders and is not to exceed the total number of non-outstanding shares of the authorized capital that exists now or in the future. At the General Meeting of Shareholders on 26 April 2016, this authority was extended to 26 October 2017. The power granted concerns the issue of ordinary shares and cumulative preferred financing shares -including granting rights to subscribe for shares and the restriction or preclusion of pre-emptive rights- and applies up to and including a total of ten per cent of the total nominal value of the shares issued as of the point of issue, where the issue is made in the context of general objectives, plus ten per cent of the total nominal value of the ordinary shares issued as of the point of issue, where the issue is made in the context of a merger, takeover or strategic partnership.

KEY DATES

2 May 2017
Trading Update Q1 2017

3 May 2017
General Meeting of Shareholders

5 May 2017
Ex-dividend date

8 May 2017
Record date

10 May 2017
Dividend payable

15 August 2017
Publication half-year results 2017

2 November 2017
Trading Update Q3 2017

Purchase of own shares

By virtue of a resolution by the Executive Board, under conditions outlined in the articles of association, the company can acquire, for valuable consideration, its own shares against payment, at a price equal to the par value they represent, on one hand, and the amount equal to 110% of the price on the stock exchange, on the other. The decision is subject to approval from the Supervisory Board. At the General Meeting of Shareholders on 26 April 2016, the Executive Board was granted authority for a period of 18 months from the aforementioned date to acquire shares in the company. This authority may be used in the context of share purchase for the share and option schemes among other things.

Employee stock options and share purchase scheme

Every year, the management of TKH and its group companies are awarded employee stock options to (depositary receipts of) ordinary shares in TKH, based on regular bonus agreements and achievements for the managers involved. The members of the Executive Board are not allocated any employee stock options; rather, a share scheme is in force.

Prevention of insider trading

On July 3, 2016, the European Market Abuse Regulation ((EU) Nr. 596/2014) ('MAR') entered into force. Although the MAR itself does not require issuers to have a policy on insider trading, TKH has decided to maintain its policy for insider trading on practical reasons. TKH has a system in place to prevent directors and employees, as well as so-called 'insiders' from utilizing information available to them for insider trading. TKH has introduced an Insider regulations to comply with the MAR, with provisions applicable to the afore mentioned persons. This group has provided written consent to act in accordance with the regulations. The company secretary serves as the compliance officer and supervises the correct compliance with legislation and regulations in the field of insider trading and other compliance risks.

Investor Relations Policy

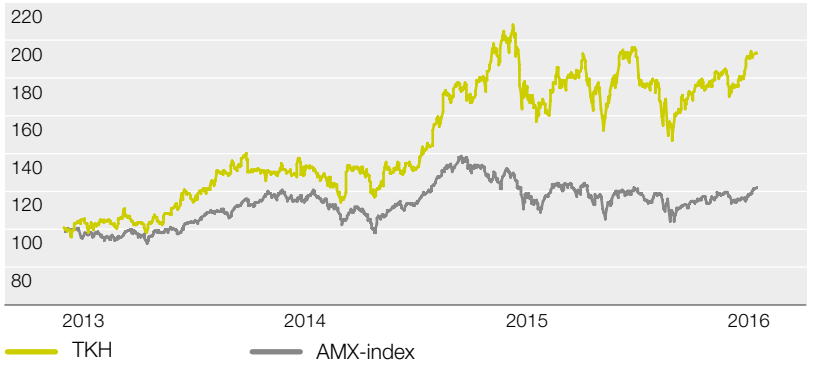
TKH's Investor Relations Policy aims to provide stakeholders with transparency and regular communications. Our financial stakeholders include existing and potential shareholders, other financiers and their intermediaries, analysts and the media. We believe it is important to provide these stakeholders with relevant financial and other kinds of information in a comprehensive, timely manner, in order to give them insight into the company and the industry. We maintain frequent contact with investors and analysts through such forums as road shows, conferences, company visits and one-on-one meetings. In 2016, TKH has organized a Capital Markets Day for analysts and investors. The technologies and market developments within the vertical growth markets Tire Building Industry and Industrial Machine Vision have been explained. At all presentations, meetings en conversations, we make sure to observe the applicable restrictions and take care that relevant information is provided and made available uniformly and simultaneously to all stakeholders. Through the annual report, the website and financial reporting, we pursue transparent reporting.

Investor Relations

J.M.A. van der Lof MBA, *chairman of the Executive Board*
More information about TKH and its group companies is also available on the company website: www.tkhgroup.com, or via the company secretary, Ms R. Dieperink MBA.

PRICE INDEX TKH / AMX

index



STICHTING CONTINUÏTEIT TKH ('CONTINUITY FOUNDATION')

The objective of the Stichting Continuïteit TKH ('Continuity Foundation') is to represent the interests of TKH Group NV (TKH) and all the businesses affiliated with it in such a way that these interests are guaranteed as much as possible and to resist as far as possible influences contrary to those interests which could affect the independence, continuity or identity of TKH and its businesses, as well as to do anything related or conducive to the above.

By means of a call option, TKH has granted the Continuity Foundation the right to acquire cumulative protective preference shares in TKH up to a maximum of 50% of the amount of the other shares outstanding at the time of placement of the protective shares or 100% if the limitation on the possibility of conversion of the depository receipt of shares ends. The protective shares will not be left outstanding longer than strictly necessary. If shareholders of TKH obtain, or are on the point of obtaining, a concentration of control that is regarded as undesirable and is not in the interests of TKH and its businesses, TKH's Executive and Supervisory Boards may determine among others their position on this concentration of control, consider and explore possible alternatives and, if necessary, elaborate them.

Furthermore, TKH has granted the Continuity Foundation the right to initiate an inquiry procedure if the Continuity Foundation sees good grounds for doubting the policy and actions of TKH and believes that by invoking this right it is acting to serve the interests of TKH and its businesses.

The Continuity Foundation met once in 2016. The meeting was attended by all members of the Executive Board, who were invited by the Continuity Foundation's Executive Committee. Topics discussed by the Executive Committee during the meeting included the annually renewable standby credit agreement for the Continuity Foundation. This credit facility is exclusively intended for the acquisition of cumulative protective preference shares, in so far as this serves the purposes of the Continuity Foundation. In addition, the financial statements of the Continuity Foundation were discussed, along with the procedures and processes for exercising the call option. The decision was also taken to increase the remuneration of the members of the board of the Continuity Foundation on the basis of market conformity.

The Schedule of Retirement was also discussed. Mr. Runderkamp retired in 2016 and was eligible for reappointment to another term. He announced timely however that, in view of his age, he was no longer available for reappointment. We are greatly indebted to Mr. Runderkamp for his expert input and constructive contributions to the Executive Committee of the Continuity Foundation. Mr. Adriaan Nühn has agreed to join the Executive Committee of the Continuity Foundation as his successor. The Executive Committee of the Continuity Foundation appointed Mr. Nühn at the meeting. Mr. Nühn joined the Executive Committee of the Continuity Foundation for a period of four years as of 1 July 2016.

The Continuity Foundation once again noted the desirability of maintaining the existing protective structure, taking into account that protection is provided by both depositary receipts that have been issued for TKH's shares and by the call option granted to the Continuity Foundation for subscribing to cumulative protective preference shares.

Haaksbergen, 14 March 2017
Stichting Continuïteit TKH
The Executive Committee

Statement of independence

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

Haaksbergen, 14 March 2017
TKH Group NV
Executive Board

Haaksbergen, 14 March 2017
Stichting Continuïteit TKH
The Executive Committee

MEMBERS OF THE EXECUTIVE COMMITTEE CONTINUITY FOUNDATION

The Executive Committee of the Continuity Foundation consists of:

- Professor M.P. Nieuwe Weme, *chairman*
- Mrs. S. Drion
- Mr. A. Nühn
- Mr. L.P.E.M. van den Boom

MEMBERS OF THE EXECUTIVE COMMITTEE TRUST FOUNDATION

The Executive Committee of the Trust Foundation currently has three independent members:

- Mr. H.L.J. Noy, *chairman*
- Professor M.W. den Boogert
- Mr. T. Tiemstra

STICHTING ADMINISTRATIEKANTOOR TKH GROUP ('TRUST FOUNDATION')

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

- The activities during the year under review, 2016, related exclusively to the administration of shares for which depository receipts have been issued.
- The total nominal value of the ordinary shares of TKH Group NV held in administration amounted to € 10,662,768.75 on 31 December 2016, in exchange for which 42,651,075 depositary receipts for shares with a nominal value of € 0.25 each have been issued.

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

The independent members of the Executive Committee hold the following positions:

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

- 2012 first appointment.
- 2020 term limit.

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

- Chairman of the Supervisory Board of Fugro NV.
- Member of the Supervisory Board of the Royal BAM Group NV.
- Associate member of the Dutch Safety Board.

Professor M.W. den Boogert
(1943)

- 2006 first appointment.
- 2017 term limit.

Mr. Den Boogert holds the following positions:

- Professor emeritus in Securities Law, University of Groningen.
- Chair of the DSI Arbitration Committee.
- Vice-chair of Stichting Beheer SNS REAAL.

Mr Den Boogert is also a member of the executive boards of Stichting ING Aandelen and of a number of foundations with a protective role at a listed company.

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

- 2015 first appointment.
- 2019 term limit.

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

- Member of the Supervisory Board of ABN AMRO NV.
- Member of the Supervisory Board of Batenburg Techniek NV.
- Member of the Supervisory Board of Royal HaskoningDHV BV.
- Member of the Supervisory Board of Bruynzeel Holding BV.
- Member of the Board of Trustees of Stichting Reinier Haga Groep.

Meetings of the Executive Committee

The Executive Committee of the Trust Foundation met three times during the financial year.

At the meeting on 30 March 2016 the topics on the agenda of the 2016 General Meeting of Shareholders were discussed and the Executive Board of the company provided an explanation of the TKH 2015 annual report. The Trust Foundation's 2015 financial statements were also discussed, approved and subsequently adopted at the meeting. In connection with the expiry of Mr. Noy's statutory term of office, he retired in 2016 and was eligible for reappointment to another term. The vacancy was announced on the Trust Foundation's website, with holders of depositary receipts being given the opportunity to put forward the names of possible candidates. There were no responses to this announcement. The Executive Committee subsequently reappointed Mr. Noy as board member of the Trust Foundation, in the position of chairman, for a period of four years commencing on 1 July 2016.

The meeting also discussed the provisions of the Dutch Corporate Governance Code affecting the issuing of depositary receipts for shares. Specific attention was paid to the Trust Foundation's legal authority to deny proxies or revoke a particular proxy under certain situations prescribed by law. In this respect, it was determined that the law -in this case Section 118(a) of Book 2 of the Netherlands Civil Code- prevails over the relevant provisions of the Code. The Trust Foundation once again emphasized that depositary receipt holders are granted a proxy to vote in

their own right and at their own discretion in a meeting of shareholders, but that the Executive Committee will be entitled to limit, preclude or revoke that proxy under certain circumstances prescribed by law. Should a situation arise in which, by law, a proxy does not have to be furnished or a previously issued proxy can be revoked, then the Executive Committee of the Trust Foundation, acting with the utmost circumspection, will invoke its authority to deny the proxy or revoke a proxy that has already been granted. In preparation for the General Meeting of Shareholders, the Trust Foundation's Executive Committee met on 26 April 2016 and discussed the items on the agenda for the AGM. The Trust Foundation's Executive Committee decided on its preliminary voting intentions, in advance of the deliberations at the AGM itself.

At the 2016 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, 99.6% of the issued capital was represented. 58.9% of the holders of depositary receipts of shares requested a proxy from the Trust Foundation to vote independently on the shares in question. Prior to the meeting, 44.1% of the holders of depositary receipts gave voting instructions to the Trust Foundation. During the 2016 General Meeting of Shareholders, the Trust Foundation voted for the remaining 40.8% of the issued capital represented at the meeting. After considering all the relevant factors, the Trust Foundation voted at the AGM in favour of all of the items on the agenda which were put to a vote.

At the meeting on 27 September 2016, the Executive Board gave a presentation on the half-year figures for 2016 that had been published. The 2017 Schedule of Retirement was discussed, which indicates that Professor M.W. den Boogert is retiring and is not eligible for reappointment to another term because his statutory term limit has been reached. The ideal profile for recruiting candidates for the position of board member was also broached at the meeting, together with the procedure for filling the vacancy that had arisen. The meeting of the Executive Committee was held at VMI Holland BV in Epe (the Netherlands). After the meeting, VMI's management gave a presentation and the Trust Foundation's Executive Committee was given a tour of the production halls, with insight being provided into the technologically advanced tire building systems.

Schedule of retirement

As per the Trust Foundation's Schedule of Retirement, Professor M.W. den Boogert will be retiring in 2017 and is not eligible for reappointment to another term because his statutory term limit has been reached. By means of its website, the Trust Foundation has given the holders of depositary receipts of shares the opportunity to put forward the names of possible candidates that fit the profile. The meeting of the Trust Foundation in March 2017 will discuss the vacancy on the Executive Committee of the Trust Foundation.

Remuneration of the Executive Committee of the Trust Foundation

The remuneration of the Trust Foundation's independent Executive Committee members was most recently amended on 1 January 2015. The annual remuneration for the chairman is € 12,500 and € 10,000 for a board member (both excluding VAT). Additional remuneration is awarded if the Trust Foundation's Executive Committee is expected to make an extra effort. The costs of the Trust Foundation amounted to € 60,447 in 2016 (2015: € 70,273).

Contact details

The Trust Foundation has its office at the company's address. The Trust Foundation can also be contacted via its website at: www.stichting-administratiekantoortkh.com or via email: stak@tkhgroup.com.

Haaksbergen, 14 March 2017
Stichting Administratiekantoor TKH Group
The Executive Committee

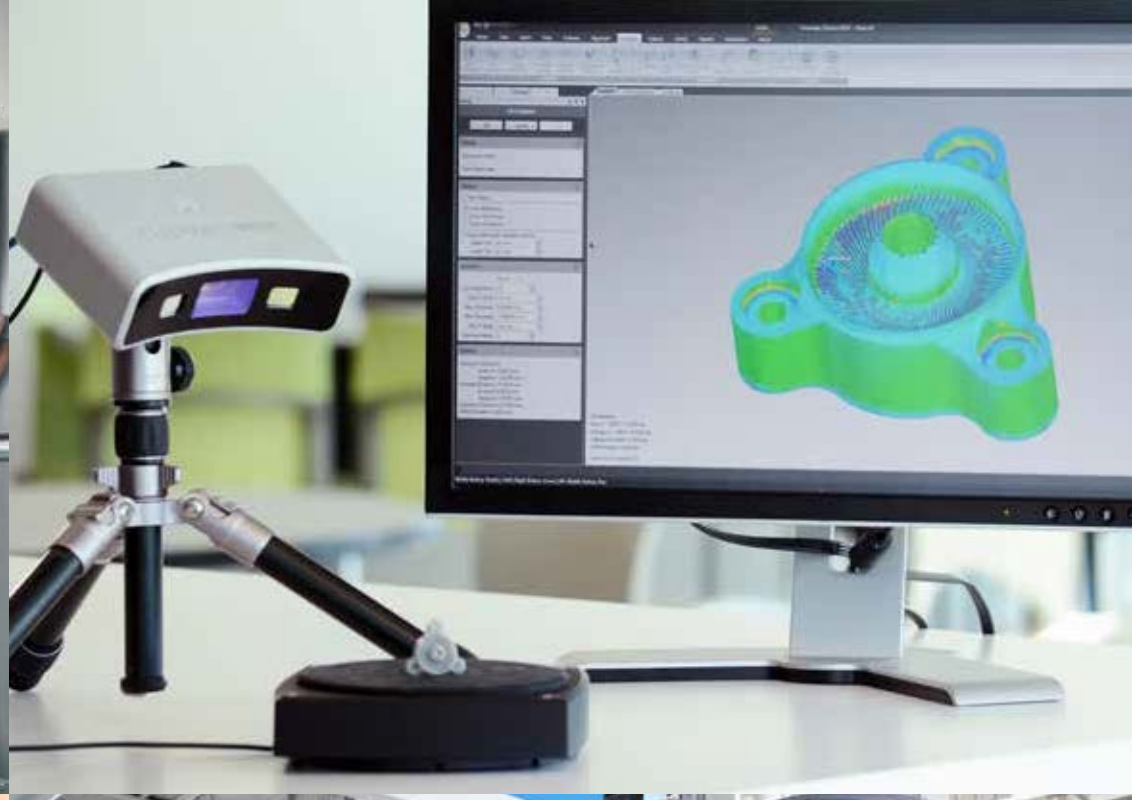
Statement of independence

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

Haaksbergen, 14 March 2017
TKH Group NV
Executive Board

Haaksbergen, 14 March 2017
Stichting Administratiekantoor TKH Group
The Executive Committee


EL3



TKH TECHNOLOGIES GUARANTEE EFFICIENCY AND SAFETY

At TKH, the four core technologies, *vision & security, communication, connectivity and manufacturing systems,* form the solid foundations for a broad range of innovative solutions that guarantee our customers and users of our technologies the highest possible efficiency and safety. We are market leader when it comes to such trends as robotization, automation and industry 4.0.

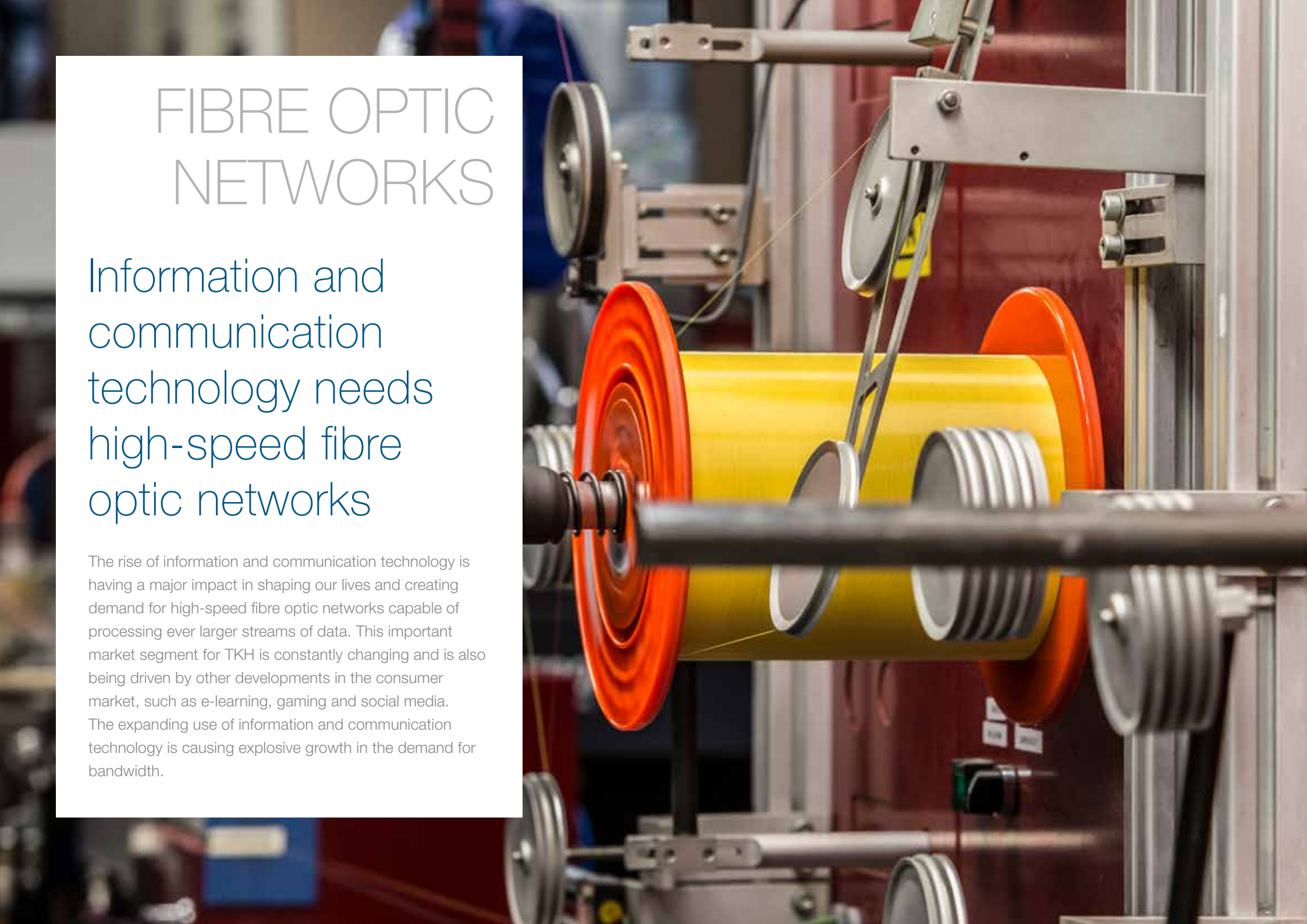
TKH has defined seven vertical growth markets in which an above average growth is expected because of important trends, which lead to a high priority for investment in TKH's core technologies. Thanks to our continuous links with our customers, we are well informed about the latest developments on the market. As a result, we are aware of changes in the market, the needs of our customers, and the demands imposed in providing the perfect solution. Nonetheless, we still go one step further. Based on our technologies and innovative total solutions, we not only guarantee that our customers are successful, but also that they generate a return on their investments. In other words, we offer them installation efficiency, lower material costs, cost efficiency, higher capacity utilization and improved safety levels. We do not only promote this, we can also prove it.

In this section we explain per vertical growth market what our distinguished position is as technology company and we support it with facts & figures.

FIBRE OPTIC NETWORKS

Information and communication technology needs high-speed fibre optic networks

The rise of information and communication technology is having a major impact in shaping our lives and creating demand for high-speed fibre optic networks capable of processing ever larger streams of data. This important market segment for TKH is constantly changing and is also being driven by other developments in the consumer market, such as e-learning, gaming and social media. The expanding use of information and communication technology is causing explosive growth in the demand for bandwidth.



GROWTH DRIVERS

- Data use through the impact of information and communication technology on the way we live our lives continues to grow and leads to a strong, increasing demand for broadband.
- Internet has become a basic need, like gas, water and electricity.
- Developments such as the ‘Internet of Things’, ‘Industry 4.0’ and ‘Internet of Vehicles’ will require a high (mobile) internet speed - emergence of 5G internet.
- 24-hour availability is becoming more established and accepted.
- Several European countries have announced investment plans for rollout of FttH projects to meet the strong increasing need for bandwidth.

SOLUTIONS

- Highly efficient design for fibre optic network systems for Ftt(X) applications.
- Simple and efficient installation of the networks by purposive design of components.
- Reducing the number of components in a network - approximately 30% plug & play installation by pre-assembly.
- Remote management and security of PoPs (Point of Presence) by Apollo security technology.
- Semi-automatic optical distribution frame (SAODF) in PoPs for remote control of the network configuration.

3%

HIGHER MARKET VALUE HOUSES WHEN EQUIPPED WITH FIBRE OPTIC CONNECTION.

50%

REDUCTION MATERIAL COSTS IN FTTH NETWORKS THROUGH SMART INNOVATIONS.

RESULTS

- High utilization of fibre optic network and favorable ROI.
- Ease of installation.
- High customer satisfaction.
- Optimization of installation and maintenance (time, cost).
- Optimization Total Cost of Ownership.
- Future-proof investments in order to increase demand for ‘Internet of Things’ application.
- Future-proof network (SDN ready).

50%

LOWER CONNECTION COSTS PER HOUSE BY ACE SOLUTION.

80%

SAVINGS LABOUR COSTS BY SAODF SOLUTION.

50%

LOWER INSTALLATION COSTS PER FIBRE BY MINIATURIZATION.

90%

SAVING ON TRANSPORT COSTS AND CO_2 REDUCTION BY SAODF SOLUTION.

Internet as a basic need

Internet has now become a basic service, like gas, water and electricity. Ultra-modern fibre optic networks enable us to use all sorts of devices in both the business and private environment, but also to receive and transmit information quickly. Security is better guaranteed because the networks make security systems faster and more reliable. But a new industrial revolution, known as Industry 4.0, is also underway, with more and more industrial machines being data-driven nowadays. The trend towards automation and robotization is irreversible, if only considered from the perspective of operational efficiency and reducing costs. The demand for bandwidth is also growing, particularly as a result of the intensive use of cloud computing and the accompanying explosive growth in the number of data centers around the world.

Disruptive by smart design

TKH therefore focuses on the numerous opportunities that this vertical growth market offers its innovative communication, vision & security and connectivity technologies. TKH's fibre optic networks are disruptive by smart design, offering customers and partners optimal efficiency whatever the application, above or below the ground.

The effectiveness of the cable solutions lies in features such as plug-and-play installation, being always bespoke and always complete. Nothing is left to chance during the construction and production of the fibre optic networks to ensure that they can be installed as efficiently as possible, in the shortest possible time and at the lowest possible cost. Key features of TKH networks are quality and a long economic life.

Huge variation

In the domain of its core technology 'connectivity', TKH designs, produces and supplies a wide range of innovative cable systems, including optical fibre cables for complete communication networks. As in other areas of the TKH's activities, innovation starts with knowledge of the market, anticipating future demand and, above all, listening to the customer. Accordingly, solutions of every kind are designed according to the precise specifications of the customer.

FULL AUTOMATED DATA CENTERS VIA SAODF

The possibilities that robotization offers for the companies at TKH are apparent from its SAODF solution, the so-called semi-automatic, optic distribution frame that is installed in a so called Points of Presence (PoP).

The SAODF solution is both innovative and unique and reflects TKH's business strategy of focusing on vision-technology-driven systems. With the SAODF solution, short optical fibre cables with a connector at each end, also known as jumpers, can be installed or removed remotely in a PoP, without on-site human intervention. The robotic arm, fitted with vision sensors, does the work.

With the SAODF solution, any bandwidth can be offered according to the precise requirements and needs of site managers and operators in data centers. SAODF optimizes the management of the customer's databases, further enhancing the day-to-day OPEX. It allows for easy switching in the event of a break in a cable or defective equipment. Not least, it provides a solution to the long-cherished desire for totally automated data centers.

Efficiency in installation

When building an fibre optic network system, all the necessary accessories such as connectors and sleeves, are incorporated at the earliest possible stage so that installation can proceed as efficiently as possible. The aim is always to make things easier for customers, since the installation costs account for most of the total cost of creating an fibre optic network. The efficiency with which TKH's fibre optic network solutions can be installed guarantees customers a high return on their investment. But TKH goes a step further. We provide product and installation training and our Field Support Engineers optionally support in rolling out projects.

PoPs totally secured

Every fibre optic network uses local stations, so-called Points of Presence (PoP). A PoP contains very expensive equipment, is unmanned and has inadequate security. To remedy that, TKH has developed the Apollo, an innovative total solution based on technologies from the successful iProtect Security Management System. A smart combination of security disciplines in a single reliable platform. This solution also yields enormous efficiency gains and significant cost-savings for network managers.

The fact is, the Apollo not only safeguards the PoP, but also manages access to it and monitors environmental factors such as humidity and temperature. Plug-and-play, ease of use and remote operation. If a fault is detected, the system automatically generates a warning in the central control room and the PoP's owner can swiftly respond. Unmistakably a TKH concept, because every aspect of an fibre optic network has been considered to ensure that the ultimate solution is the most effective and efficient for the customer.

A GOOD LOGISTIC CONCEPT MAKES THE DIFFERENCE

The ACE fibre optic network system of TKH subsidiary TKF guarantees the best solution for the design and construction of fibre optic networks. When choosing a fibre network concept, the focus is often on a sophisticated design and high-quality components. Once designed and planned as a project, the roll out in the field becomes the next challenge, especially in the rural areas.

An essential part of a successful roll out of a project is the in-time delivery of materials to the right location. For some years now, TKF offers extensive services. The components are directly supplied to locations which are indicated by the customer. It can be in the field, on third-party sites or in a central warehouse. The delivery is done by own employees with knowledge of the ACE fibre optic network solution.

With this logistic concept, it is also possible to provide only those components at the locations that will actually be needed. Only the used materials will be charged (consignment stock). This declines the working capital of our customers considerably. Based on agreed parameters, the project progress is monitored by our employees, supplied and adapted when necessary. The success of a project is not only depending on a good design and concept choice, but also very much depends on a successful roll out in combination with a smart logistic concept.

>50%

SAVING ON WORKING CAPITAL FOR CUSTOMERS.

10%

REDUCTION OPERATIONAL COSTS BY LOGISTIC CONCEPT.

CARE

Improving quality of life and efficiency

The demand for new and innovative solutions is growing in the care sector. For the intramural care like hospitals, nursing homes or homes for disabled peoples- as well as for extramural care like home care. Solutions that allow care to be delivered more efficiently and enable people to continue living independently for longer. And with the ageing populations, that demand is only going to increase. For many years now, TKH has been providing reliable solutions for the intramural and extramural care sectors in the areas of observation, monitoring and visual communication, as well as alarm systems and video care, to make care more efficient, reliable and user friendly.

GROWTH DRIVERS

- Life expectancy is continually increasing and healthcare spending will increase sharply due to more and better, but also more expensive care – therefore, the demand for technologies for care solutions is increasing.
- Changing healthcare funding: shifting from the government to the institutions and healthcare insurers.
- Innovations in the field of domotics, diagnostics, e-health and self-testing for prevention and screening, are providing new businesses in the sector.
- Shortage of skilled workers.
- Informal caregivers play an important role and, together with the client and the healthcare professionals, are equal partners - technology support is necessary for the required information exchange.
- The demand for medicines (volume) has been growing as a result of demographic developments, while the cost of care will have to be lowered.
- Increase central task of preparing medicines in a remote location - acceptance of robotics in pharmacy wholesale.

SOLUTIONS

- Flexible and intelligent care processes with associated systems.
- High efficiency through 'situational awareness'.
- Increased safety and security through smart and reliable sensors.
- Transforming intramural care systems to wireless home care applications.
- Optimization of remotely hosted management processes through voice / audio integration and predictive data management.
- Productive and reliable automated systems for medicine packaging with complete track & trace process.
- Delivering solutions in accordance with the guidelines set by the government.

50%

ELDERLY PEOPLE LIVE LONGER INDEPENDENTLY VIA CARE TECHNOLOGY.

20 MINUTES

TO TRANSFER A STANDARD HOME INTO COMPLETE CARE HOME.

RESULTS

- Optimized care processes with a high degree of efficiency of qualified healthcare provision.
- Increased customer satisfaction - both caregivers and patients / clients.
- Faster client-based installation of healthcare technology.
- Reduced risks of automated processes.
- Higher safety of healthy critical situations.
- Beneficial effects on health spending.
- Significant cost savings in health care.
- Significant increase patient safety and medication loyalty.
- More time available for health care providers and pharmacists to spend time directly to the care-related work.

20%

HIGHER EFFICIENCY – MORE TIME TO SPEND FOR CARE.

40%

MORE HOUSES ARE CONNECTED ON CARE TECHNOLOGY.

30%

HIGHER ALERT ACCURACY- EXCLUSION OF FALSE ALARMS.

20%

COST EFFICIENCY THROUGH CARE TECHNOLOGY.

With its solutions for the Care vertical growth market, TKH improves the quality of life in care institutions and increases efficiency in the sector. TKH provides solutions for hospitals, institutions for disabled people, mental healthcare institutions and for houses. But TKH has also caused a revolution in the pharmaceutical industry with INDIVION, our fully automated system for packing and distributing medicines.

VieDome – a platform for 'remote care'

VieDome' is the brand name of TKH's innovative response to the demand for 'remote care'. Centrally monitored by professional care providers, elderly people can continue living longer at home. TKH manages the whole process within the VieDome platform: from the development and production, the system's installation, service and maintenance. It is a fully IP based, integrated communication, observation, care and security system. With VieDome a regular house or apartment can be transformed into a care home in just 20 minutes, regardless of the connections or infra-structure in the home. We make every home as a care home, which features' remote care solutions that the user needs to live longer independently.

In-depth knowledge of the healthcare market

Cure & Care is a highly specialized market. Roughly speaking, the Cure segment covers the aspects of healthcare relating to the treatment of illness. It generally refers to temporary care provided in hospitals and short-stay mental health institutions, pharmacies, etc. Care refers to nursing and caring for people, sometimes briefly, but frequently for long periods, for example nursing homes, care of disabled people, etc. With its years of experience in half of the hospitals in the Netherlands, TKH is a constructive partner for today's enterprising care managers. TKH understands the needs of its customers and advises them on the basis of its in-depth knowledge of the healthcare market and the sector's business processes. Knowledge and experience that it has also gained in other vertical markets and which also resulted in effective total solutions for hospitals and other care institutions.

CASE **KEYPROCESSOR / COMMEND**

SAFETY & EFFICIENCY AT THE ELISABETH-TWEESTEDEN HOSPITAL

At the beginning of 2016, the St. Elisabeth Hospital and the TweeSteden Hospital were merged to form the Elisabeth-TweeSteden Hospital (Tilburg/Waalwijk – the Netherlands).

In order to satisfy higher efficiency and safety requirements, the operating rooms in Tilburg were fully renovated. A specialized project for TKH subsidiaries Keyprocessor and Commend. Commend delivered its innovative clean room intercom system, which is equipped with a self-sterilizing front and enables hands-free communication. The system guarantees 24-hour voice communication, has an audio installation and an interface to the existing telephone system. The desired installation efficiency could be achieved through an integrated intercom system with no less than 35 plug-and-play intercom stations in the operating rooms. The rooms were dealt with in phases so that they could continue to function as usual without any hindrance. By testing the system live before implementation, risks were eliminated at an early stage.

‘INDIVION’ A REVOLUTION IN MEDICINE DISTRIBUTION

Demographic trends, particularly the growing and ageing population, have been driving up demand for medicines for years. In the meantime, it is essential that patients take their medicine in the right doses and at the right times every day. A problem is that it still takes too long and costs too much for pharmacies to sort and deliver the necessary medicines to patients every day, and there is always a risk of mistakes in the process.

INDIVION from TKH subsidiary VMI is a solution that responds to the demand for greater efficiency and lower costs in pharmacies. INDIVION is a revolutionary, fully automated medicine packing system for the pharmaceutical market. The system works without human intervention and with the contents of the medicine pouches being controlled entirely by our vision systems, all with the aim of guaranteeing absolute safety and reliability. The INDIVION is now capable of producing up to 170 pouches with medicines every minute.

Careful registration

As medicines are being packed into pouches (also called blisters), residues of the medicines are normally released in the form of dust, causing contamination of medicines that are packed later. The result is that different medicines can become mixed with potentially harmful consequences. INDIVION addresses that problem by minimizing the fall height of medicines in the system. The fall height in the INDIVION is just 20 centimetres, compared with an average fall height in the market of one metre. In the INDIVION, the pills drop from so-called canisters, each of which is unique and can only take pills of the correct size. To prevent mistakes, every pill is also uniquely registered using specially developed software. Each of the canisters in the INDIVION also has an RFID chip which carries information from which it is possible to ascertain which medicines are or should be in the machine and precisely where they should be.

In the traditional machines the pills fall into a hopper that leads to the opening of the pouches that have to be filled. The traditional machines have only one hopper that all of the medicines pass through, creating a high risk of contamination. The INDIVION has more than 70 patented hoppers, in a sort of horizontal revolving arrangement. This solution was carefully thought out with the client and patient’s satisfaction in mind: to make the operation quick, efficient and reliable and almost entirely eliminate the risk of contamination.

0,00000009%

FAILURE MEDICINE PACKAGE VIA INDIVION.

93%

PATIENTS CONFIRM THAT THIS WAY OF INTAKE OF MEDICINE HELPS.

80%

TIME SAVING PER MEDICINE PACKAGE PER PATIENT.

100%

TRACEABILITY.

Cost control

Hospitals have to stand out in terms of hospitality and customer-friendliness, but also have to operate more efficiently and reduce costs. TKH's care solutions provide information and support for the effective management of the primary processes in hospitals. For example, by recording the movements, routing and utilization rates of important equipment so that the necessary interventions can be made promptly data and actions that are crucial for keeping down costs and making patients as comfortable as possible.

TKH supplies security systems, for example, to manage access for people, vehicles and goods. Observation, security, image communication and telemonitoring can all be managed with one single solution. In short, with our innovative care technology and tailored software solutions, customers can save money while simultaneously enhancing their reputation. Because what ultimately counts is that patients are safe and receive the best possible care.

CASE | ISOLECTRA / CRUXIN

FRIENDLY CARE THROUGH FOKUS

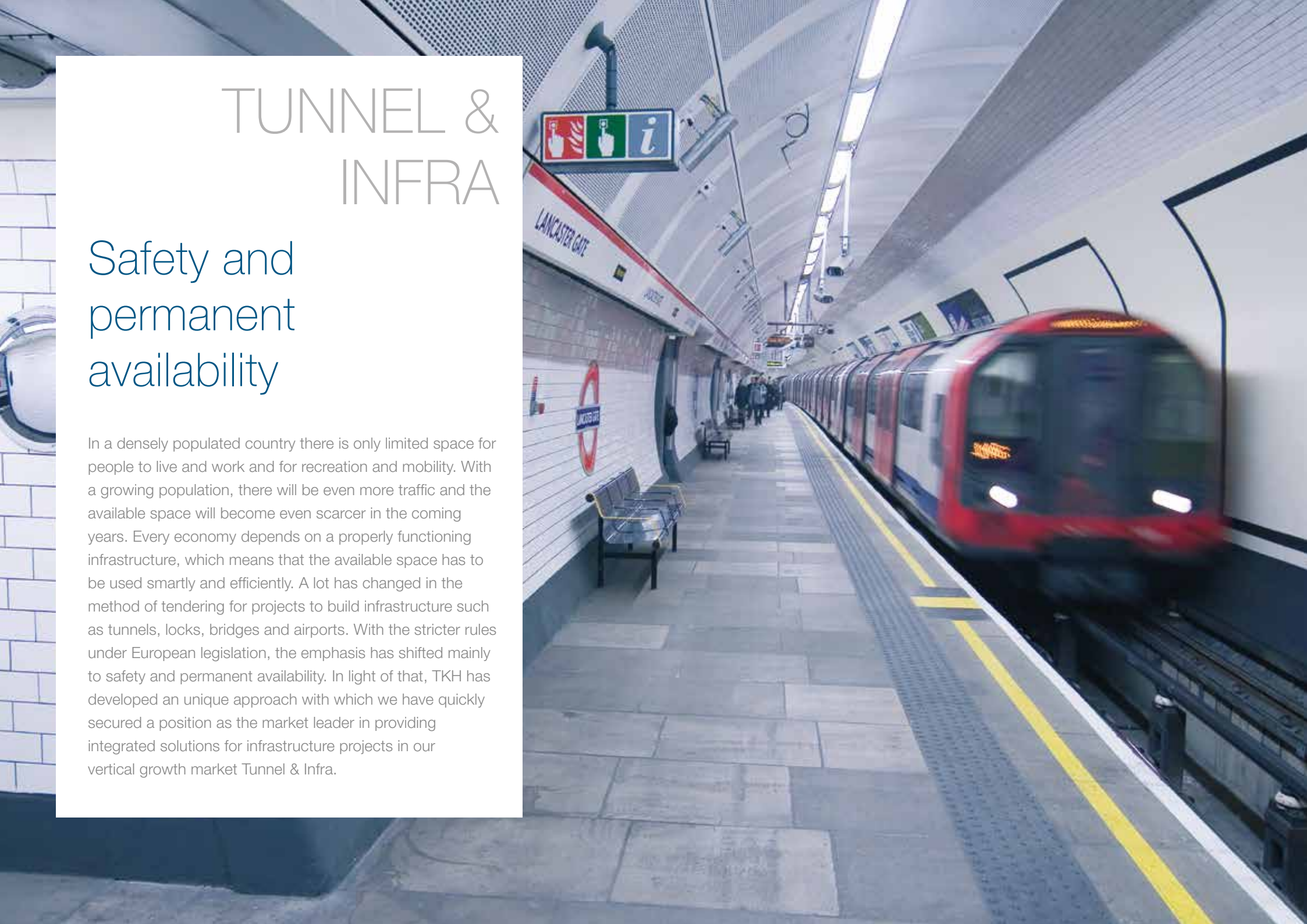
Fokus makes it possible to enjoy freedom and live normally with a physical disability. The combination of a modified home with 24-hour, on-call service enables people with a physical disability to take and retain control of their own lives. With Fokus, the client decides when, where and how he wants ADL (Ambulatory Services).

Fokus operates throughout the Netherlands. There are approximately 1,400 Fokus homes in almost a hundred Fokus projects. Through its subsidiaries Isolectra and Cruxin, TKH has been looking after Fokus' alarm and communication facilities for more than 30 years – standard in every home. The biggest advantage of this standardization appeared only recently. Because we log every emergency call and its status, it became relatively easy to automate the care administration by interlinking access control data, emergency call data and care registration. By doing this, Fokus not only eliminated administration work for the ADL workers but, much more importantly, gave Fokus clients a friendlier experience of their care. "Recently, they've paid us much more attention. They're no longer glancing at their watch."

TUNNEL & INFRA

Safety and permanent availability

In a densely populated country there is only limited space for people to live and work and for recreation and mobility. With a growing population, there will be even more traffic and the available space will become even scarcer in the coming years. Every economy depends on a properly functioning infrastructure, which means that the available space has to be used smartly and efficiently. A lot has changed in the method of tendering for projects to build infrastructure such as tunnels, locks, bridges and airports. With the stricter rules under European legislation, the emphasis has shifted mainly to safety and permanent availability. In light of that, TKH has developed an unique approach with which we have quickly secured a position as the market leader in providing integrated solutions for infrastructure projects in our vertical growth market Tunnel & Infra.



GROWTH DRIVERS

- In Europe, investment in tunnel technology for new and existing tunnels are planned for the coming years.
- Due to strict legislation and regulations in the field of security, ever increasing demands are made on the technical equipment.
- Increasing demand for technologies in order to comply with strict requirements: evacuation - communication - detection - identification - security.
- Principals are shifting responsibilities to the contractors - formation of alliances between principals and contractor so that parties have a common interest in cost control.
- Availability infrastructure -tunnels, airfields and roads- need to increase because of less and efficient maintenance.

SOLUTIONS

- Smart guidance and information management.
- Remotely controlled management processes by means of voice-audio integration and data management.
- Optimum maintenance and asset management.
- Seamless integration of systems.
- Easy, efficient installation of communications, safety & security and connectivity systems.
- Technology which meets the highest requirements with respect to the European directives on safety.

REDUCTION TOTAL COST OF OWNERSHIP.

IMPROVED TRAFFIC FLOW THROUGH TECHNOLOGIES.

RESULTS

- Improved safety and availability of infrastructure.
- Pro-active maintenance planning.
- Optimization of installation and maintenance (time and costs).
- Reduction Total Cost of Ownership.
- Less environmental impact through efficiency of traffic flow.
- A high level of customer satisfaction.
- Compliance with (HSE) standards and regulations.
- Ease of installation.

50%

INSTALLATION EFFICIENCY THROUGH PLUG & PLAY COMPONENTS.

10%

IMPROVED VOICE INTELLIGIBILITY ABOVE STANDARD.

NEED FOR PERMANENT ROADBLOCK MINIMIZED.

<15 MINUTES

REPAIR OF CAMERA HARDWARE.

We possess all the necessary specialist knowledge about tunnels and roads, bridges and locks, airports and airfields. Our technologies are also used to manage the movement of large numbers of travelers safely and efficiently.

TKH leads the way with its proven technology

Availability and efficient maintenance of systems are factors that TKH already takes into account when it is designing a project. Less maintenance represents financial savings and less disruption for the users in the long term. TKH uses only the most innovative and high-grade technologies and high-end solutions based on 'proven technology'. Every project has its own specific characteristics and is therefore unique. The specifications are always defined in close consultation with our customers. Our core technologies are usually as invisible as they are essential in our solutions.

TKH's priority in infrastructure projects is always to find innovative solutions that guarantee safety and efficiency. We supply systems with fully integrated video, voice and sound that continue to function even in extreme conditions, such as extreme heat or cold. All our solutions are guaranteed to comply with the rules and regulations so that tunnels can be opened safely and on time.

Safely from A to B

The continuous monitoring of traffic and public transport is a bigger challenge than many people might think. The priority is of course to prevent accidents, but incidents can still occur. A lorry might break down or shed its load on a motorway and motorists driving against the flow of traffic can form a serious threat, not to mention a fire breaking out in a tunnel. Such incidents demand immediate, efficient and effective intervention.

CASE COMMEND

IMPROVED SAFETY IN THE HENNDORF TUNNEL IN SALZBURG

Lack of daylight, poor traffic conditions and no mobile telephony reception are common problems in tunnels. Yet anyone who wishes to call for help in a tunnel must be able to count on fully reliable communication in emergency situations.

A perfect example of how Commend deals with this is the bypass tunnel near the town of Henndorf am Wallersee in the Austrian province of Salzburg. 20 Commend emergency call stations and 48 public address loudspeakers have been installed along this 2 km road through the mountains. The loudspeakers provide loud, interference-free voice reproduction allowing clear instructions to be given to road-users and emergency services.
But Commend contributes even more to safety in the Henndorf tunnel thanks to its central control room solution. Here, special mobile radio channels are used to establish direct contact with emergency services. This very easy-to-use system enables control of all safety facilities and keeps emergency services fully informed at all times of what is going on in the entire tunnel. In short, Commend has provided everything needed in the area of safety and communications, making the Henndorf tunnel one of the safest in Austria.

A HIGH LEVEL OF SAFETY AND EFFICIENCY WITH CEDD

CEDD is an absolute masterpiece of technology and has been developed by TKH subsidiary USE System Engineering. CEDD is a very innovative, advanced connectivity technology for contactless energy and data distribution. The transport of energy and data is combined in a single cable system, a base station and contactless connection points. This makes it possible to easily install or replace lighting in a tunnel, roadway, runway or helicopter platform without making a physical electrical contact with a power or data cable.

The lighting systems for airport runways have traditionally been powered by cables. The cables are enclosed in ducts along the runways, with a cable running under the runway from the ducts to each lamp via a transformer. Approximately 150 kilometres of cable are required to light a runway. The more cabling and parts that are needed, the greater the risk of a fault. The ducts are also quite sensitive to humidity and require a lot of maintenance. When maintenance has to be carried out on the ducts, the runway has to be shut down altogether.

CEDD prevent such a situation. It is a solution for contact-free distribution of energy and data. A single cable is laid that is capable of transporting both energy and data. A number of light fittings can be attached to it. It is a contact-free system, so no open electric contact has to be made with the cable when it is being laid or replaced, which means that a high degree of safety is established when the system is installed. Another advantage of the CEDD system is that the humidity-sensitive ducts are no longer needed, which strongly reduces the system's vulnerability to faults and maintenance requirements. There are also enormous energy savings. The average length of a runway is three to four kilometres and every runway has around 1,500 lights. The system is also able to deliver comprehensive information about the need for preventive maintenance, for example to the lamp itself. With a higher degree of reliability, more efficient use of energy and less and easier maintenance, the Total Cost of Ownership is reduced for every operator.

20%

REDUCTION IN CAPEX.

20%

REDUCTION IN OPEX.

100%

CONTROL OF INDIVIDUAL DEVICES.

INSTALLATION EFFICIENCY.

10%

HIGHER UTILIZATION RATE PER RUNWAY.

30%

ENERGY REDUCTION DUE TO LOW VOLTAGE AND CONTACTLESS ELECTRICAL DISTRIBUTION.

100%

INSTALLATION SAFETY.

EFFICIENCY DUE TO BETTER DIRECTING OF AIR-TRAFFIC AT THE AIRPORT.

CASE CRUXIN

AVENUE2 IN THE HIGHEST STATE OF READINESS

The 'Koning Willem Alexander Tunnel' in Maastricht has been designed to handle up to 150,000 vehicles per day, although there are still 'only' about 50,000 per day at the moment. So there is plenty of room for growth.

The tunnel leads to an 80% reduction in the amount of traffic above ground in Maastricht. As well as increasing efficiency, this also hugely improves air-quality and quality of life in the city, of course.

These achievements could not have been realized without technology. TKH subsidiary Cruxin, the system integrator of TKH technology for Tunnel & Infra, was responsible for the design, delivery and implementation of the communications and safety systems for this project. These systems are part of all traffic and tunnel technical installations and consist of CCTV, intercom, emergency telephony, high frequency and C2000 systems, developed and produced by TKH companies.

Our 217 cameras ensure that every square centimetre of the tunnel can be viewed; our video software ensures that all camera images are continuously recorded; and the traffic control room can review images and send them on-demand to the emergency services. Our emergency telephony and intercom systems ensure that a live connection can be established directly with the traffic control room from each of almost 300 emergency call stations. Via our high-frequency installation, relevant evacuation information can be transmitted to car radios, while 200 loudspeakers make it possible to provide drivers with relevant evacuation information in the event of a calamity.

To maximize the availability of the safety installations, all our systems are fully redundant and designed to be available at all times. The safety installations are the heart of the tunnel – without them, the tunnel would simply not allowed to be open.

TKH's camera solutions provide an answer in even the most complex infrastructures. With our core technology 'vision & security', we can supply a wide variety of camera systems that provide spectacularly clear images that miss nothing, even when there is little light. Incidents on the road are always reported immediately to the central control room with an alarm so that decisions can be made promptly and efficiently.

TKH's safety and security systems can also automatically detect incidents so that the flow of traffic can then be properly managed from the central control room. Our advanced video contact analysis system recognizes car license plate numbers, objects and faces. Our vandal-proof cameras are durable and save a lot on the costs of unnecessary maintenance.

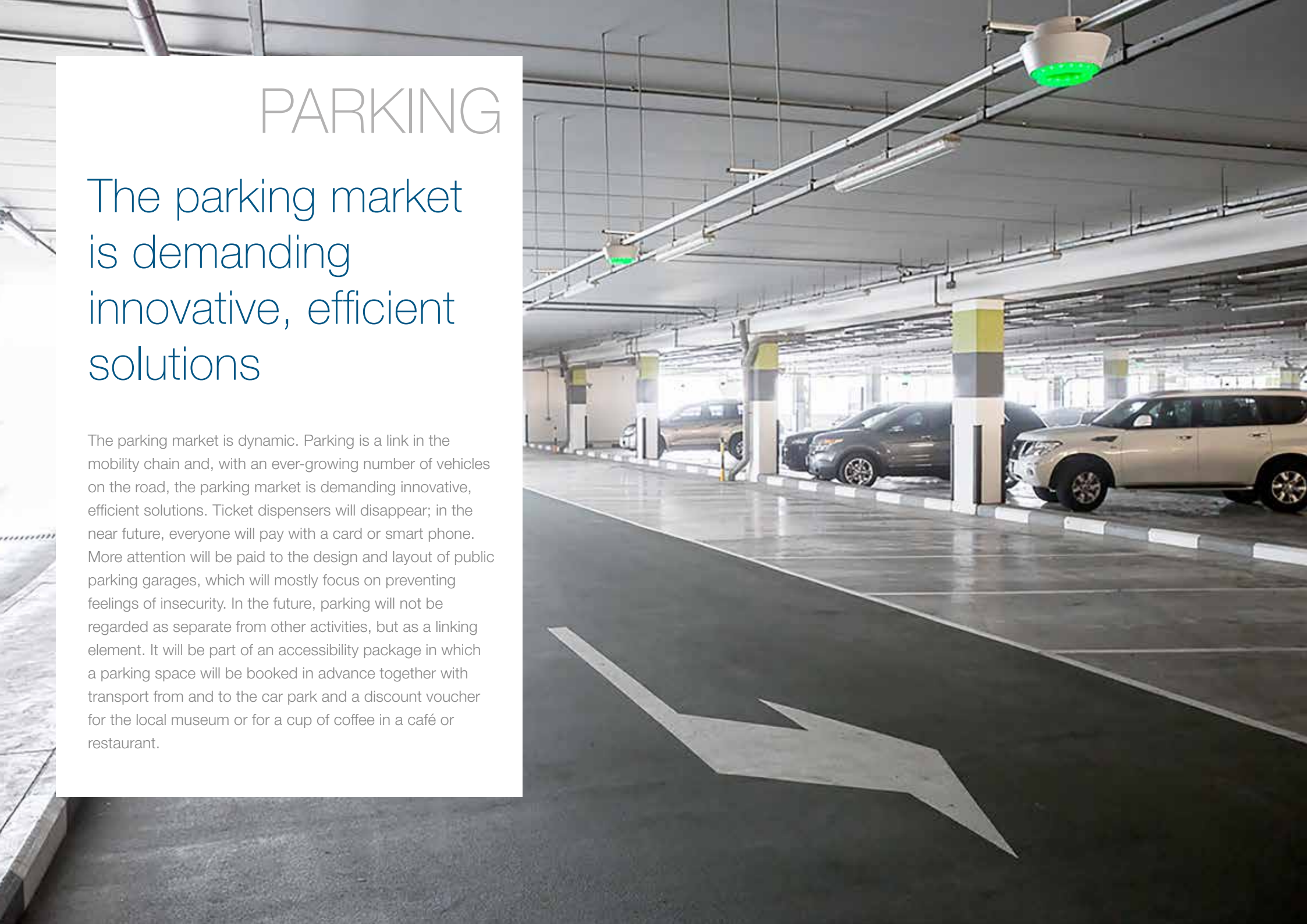
TKH solutions help prevent incidents

Even more sensitive than monitoring and managing traffic flows on the road are the safety and efficiency at airports for planes, passengers and buildings. Any incident forces operations to be stopped immediately for at least an hour, which can quickly lead to the cancellation of 20 to 30 flights with accompanying delays and high costs. Here too, TKH's video surveillance solutions help to identify, and where possible prevent incidents and potential delays or risks. A combination of optical and thermal cameras with extremely sensitive sensors monitor every corner of an airport and automatically generate alarms or identify intruders. All in the highest possible resolution.

PARKING

The parking market is demanding innovative, efficient solutions

The parking market is dynamic. Parking is a link in the mobility chain and, with an ever-growing number of vehicles on the road, the parking market is demanding innovative, efficient solutions. Ticket dispensers will disappear; in the near future, everyone will pay with a card or smart phone. More attention will be paid to the design and layout of public parking garages, which will mostly focus on preventing feelings of insecurity. In the future, parking will not be regarded as separate from other activities, but as a linking element. It will be part of an accessibility package in which a parking space will be booked in advance together with transport from and to the car park and a discount voucher for the local museum or for a cup of coffee in a café or restaurant.



GROWTH DRIVERS

- Revenue from car parks is under pressure due to decline of traffic flow - need to reduce OPEX.
- Demand for providing a visual dashboard with parking information - managers and car park operators can react faster and more efficient to current situations.
- Increase capacity utilization and revenues by means of differentiated parking fee.
- Demand for comfort and convenience for parkers.
- Use of technologies to improve safety, access and payment possibilities.
- Emergence of demand for frictionless parking for an optimal parking experience.

4-7%

HIGHER OCCUPANCY.

10-15%

HIGHER PARKING REVENUES.

RESULTS

- Optimized value creation for the parking real estate.
- Optimized Total Cost of Ownership and asset management.
- Higher customer satisfaction.
- Less environmental impact.
- Predictive maintenance.

SOLUTIONS

- Smart guidance and information management.
- Remotely controlled management processes using voice/audio integration and data management.
- Camera sensors per parking space with intelligent software support 'frictionless' parking for the optimum parking experience.
- Optimum maintenance and asset management.
- Seamless integration of systems.

10%

LESS TOTAL COST OF OWNERSHIP.

50%

HIGHER EFFICIENCY USING REMOTE MANAGEMENT CONTROL CENTRE.

1%

INCREASE IN VALUE OF THE REAL ESTATE.

70%

ENERGY SAVINGS VIA BB-LEDLIGHTPIPE.

TKH's systems to provide the ultimate in efficiency, safety and security in parking garages and public car parks in its vertical growth market Parking are a perfect illustration of how it combines two of its strong core technologies -vision & security and communication- to produce innovative solutions. Everything is aimed at creating efficiency, reducing costs and generating an effective return on investment for investors in car parks and their managers and operators. TKH's parking solutions are used in more than 20 countries and make parking a pleasant experience, with comfort and convenience and a high level of security, for every motorist.

TKH is developing and producing a new generation of innovative parking solutions with a worldwide reputation. The solutions range from video analysis for the comprehensive monitoring of car parks and ensuring the smooth flow of traffic in garages, to fully integrated access control, intercom and CCTV systems, as well as license plate registration.

The key to TKH's parking solutions is the highly advanced software that controls all functions and generates all of the relevant data that the operator and manager need to run their operations efficiently and keep costs as low as possible. The manager, for example, is always aware of the occupancy rate and the most popular parking spaces. Motorists will be happy to pay more for one of those popular spaces if the car park is very busy. The differentiation of the fees is easy to enter in the system software.

Unique identification of an empty space

'Where can I leave my car' is a common cry heard from stressed-out motorists struggling to find a space as they drive from floor to floor in a parking garage without any directions.

TKH's intelligent guidance systems shorten the search dramatically and eliminate the frustration. They offer motorists a high-tech experience in their hunt for the nearest free parking space. The parking guidance system is a combination of BB-LEDlightpipes® and the guidance system based on Park Assist's camera-sensor technology. As well as saving time for motorists by making it easier to find an empty space, the system curbs CO_2 emissions by reducing the volume of unnecessary traffic in the garage by guiding the motorists to a free space as quickly as possible. This is accomplished by installing a camera between every two parking spaces that sends signals via a coloured LED lamp – red for occupied, green for empty – that quickly guide the motorist to the first free space. Other colours could also be used, for example to indicate spaces for disabled drivers. The lighting system is fully modular and requires little or no maintenance. The lights can easily be dimmed when the occupancy rate is relatively low, which can generate savings of up to 70% in electricity consumption.

CASE PARK ASSIST

'FLINQ' FOR THE SCENTRE GROUP'S NATIONAL OPERATIONS CENTER

TKH subsidiary Park Assist was asked to analyze the needs of the Scentre Group's (Westfield Australia) Car Park National Operations Centre ('NOC') and then to design a centralized solution.

With 43 shopping centres throughout Australia, the Scentre Group saw possibilities for centralizing parking activities in order to offer a consistently better customer experience in all of their parking garages. The local character would have to be retained but, at the same time, a more economic service model would have to be enabled; as well as a centralized use of resources to improve the support of local employees. Their NOC is a custom-built facility covering 430 m^2 accommodating operators who will answer queries from customers in all parking garages.
As the system integrator, Park Assist, aided by TKH subsidiaries Flexposure and Commend, is implementing a single operational interface for the operators. This will integrate technologies from multiple different locations, such as PARC, CCTV and intercom systems.

The TKH parking solutions offer more than just the comfort of quick and convenient parking. The smart sensors, the brain in the cameras, also register license plates and so enable motorists to find their vehicle quickly using a special app developed by TKH for the smart phone. The motorist only has to enter his or her car license plate number and the position of the car is immediately shown on the screen. The facility is also available on a video terminal at the kiosk where the driver has to pay. It has been found that, particularly in large car parks, more than 55% of motorists cannot immediately find their car and make grateful use of the parking system.

Optimal parking experience

TKH's parking solutions delivers an optimal parking experience. A good car parking is the advertisement of the facility or location for visitors. Parking is annoying when it causes the visitor to become frustrated. We prevent that frustration by making parking easy and removing any barriers, literal or metaphorical. This maximizes the efficiency and the ROI for the operator and creates the greatest possible satisfaction for the motorist, who is then encouraged to return to the same car park again.

Also effective and efficient is the solution that TKH offers to enable operators of parking garages to operate the systems of all the car parks in a network centrally, regardless of where they are, or even what country they are in. On a single, integrated web-based software platform with a single user interface, information is generated from the entrance and the exit and within the garage itself about all the systems in the garage. Reports are sent via our intercom system in the parking garage to the central control room, where the situation can be monitored remotely using the camera systems and the correct response can be organized. The operators in the central control room can also intervene whenever an incident or emergency occurs in a garage. The emergency services can be called directly from the central control room. The platform constitutes TKH's unique 'software bridge' between the central control room and its operators and the local car parks.

TKH'S PARKING SOLUTIONS OPTIMIZE USE AND MANAGEMENT OF CAR PARKS

TKH's parking solutions generate a lot of useful and essential data that managers, operators and investors need to optimize the use and management of the car park. For example, the manager of the parking garage receives information about aspects such as the occupancy rate and whether or not it is time to consider expanding.

The data can also be used to identify peak and off-peak periods and to help operators decide on the best time to carry out maintenance in the garage. By structurally associate variables with the time at which an act or event occurs, 'profiles' for maintenance can be predicted. This not only provides efficiency advantages but also huge cost savings because the garages do not need to be closed unexpectedly.

Historical research has also shown that TKH's parking guidance system can reduce the time taken to find an empty space by 44%, especially during busy periods. During the study it was found that the number of motorists that had to search for longer than five minutes had been reduced by 12%. Overall, the search time was always substantially shorter.

45%

LESS CO_2 EMISSIONS THROUGH PARKING EFFICIENCY.

99+%

ACCURACY RATE.

44%

LESS TIME SPENDING SEARCHING FOR AN EMPTY SPACE IN PEAK PERIODS.

MARINE & OFFSHORE

Unique through innovation and sustainability

In the Marine sector, European shipyards primarily focus on the construction of specialist ships and vessels, such as offshore ships, luxury yachts and cruise ships. Furthermore, shipping volumes are expected to double over the next 15 years.

The Offshore industry often faces challenging weather conditions and has to meet very stringent safety requirements. Companies that have grown wealthy on the extraction of fossil fuels are now focusing more specifically on developing sustainable alternatives, such as offshore wind energy and tidal energy. These developments ask for smart technologies in the field of connectivity, vision & security and communication.

GROWTH DRIVERS

- Large increase global generated power by wind power.
- Demand for larger cargo ships and need for efficient external site management.
- Increase in the building of quality ships, cruise liners and luxury yachts.
- Increase of remote control and secure of unmanned operations on platforms.
- A lot of attention for safety on platforms via special ‘zone’ certification.
- Modification of supply chain due to limited storage capacity on shipyards and platforms and high cost of downtime.
- High demands on system availability under various environmental conditions, such as extreme temperatures, humidity, oil, salt water.

SOLUTIONS

- Use of smart vision & security technologies.
- Explosion-proof and fireproof solutions.
- Subsea cable systems and a complete connectivity package specifically for this industry.
- Situational awareness on ships, rigs and in ports.
- Smart guidance and information management.
- Remote-controlled management processes using voice/audio integration and data management.
- Simple and efficient fitting of communication, safety & security and connectivity systems.
- Efficient logistics concept for connectivity systems using ‘just-in-time’ deliveries.

50%

INSTALLATION EFFICIENCY THROUGH LABELING CABLE SYSTEMS.

50%

GREATER EFFICIENCY WITH REMOTE MANAGEMENT CONTROL CENTRE.

RESULTS

- Higher safety levels.
- Compliance with (HSE) standards and regulations.
- Pro-active maintenance planning.
- Optimization of installation and maintenance (time, costs).
- Optimization of Total Cost of Ownership.
- Ease of installation.
- High level of customer satisfaction.
- Decrease of cost as a result of purchase efficiency through cable concept - no stock and no waste.

100%

MEETING REQUIREMENTS FOR CERTIFICATION.

50%

LOWER COST DUE TO LOGISTIC CONCEPT.

10%

LOWER TOTAL COST OF OWNERSHIP.

TKH supplies very specific worldwide solutions to its vertical market segment Marine & Offshore. These solutions represent a very broad portfolio that specifically focuses on safety, security and efficiency on ships, drill rigs and oil & gas transfer terminals. But offshore wind parks are also part of this portfolio. Not only robust, vandal-proof and fireproof connectivity systems, but also fully integrated and IP-based vision-security camera systems, and security and communication systems. All TKH solutions naturally meet all the statutory guidelines and the most stringent safety requirements.

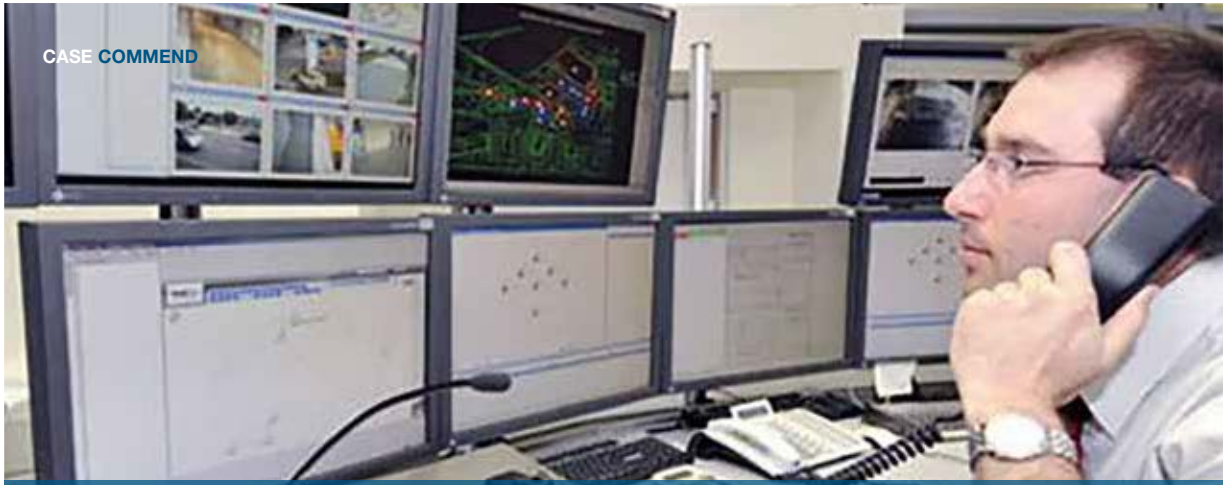
With its specialty cables, including recently launched unique subsea cable systems, Marine & Offshore is definitely not unfamiliar to TKH. On the contrary, many different types of cable have already been supplied to this sector. The success of these cables has now led to Marine & Offshore becoming a specific focus market at TKH, while meeting all the market's requirements.

We're there to help you when every second counts

Critical environmental factors play a very important role in Marine & Offshore, perhaps even the decisive role. Systems must be available at all times and able to withstand heavy loads, high and low temperatures, moisture, oil and salt water. There is an extra focus on very hazardous and critical installations, such as on drill rigs and terminals where the primary processes are. Every interruption of extraction processes or the loading of ships is extremely costly, so continual surveillance, monitoring and 24/7 checks are an absolute necessity. The quality of TKH's solutions guarantees this.

An operator in a command and control centre must have a full overview at every moment of what is going on in, at and around the locations under surveillance. Not least in the event of a calamity, when every second counts. It is of vital importance that, in the event of incidents, it is immediately clear that everyone is actually present and no one is left behind on the rig if evacuation is initiated.

TKH's Security Management System always directly displays the right information at the right location to the right people. This is done very efficiently using data from various systems: watertight access controls, rapid (fire) alarms, and smart, explosion-proof cameras with in-built intelligence that maintain a full view of the situation and are self-testing for operational effectiveness. And not only do TKH's ultra-low-light cameras ensure surveillance in daylight, but they also provide clear camera registration in the dark. And that's a situation that is more the rule than the exception in the Marine & Offshore market.



CASE COMMEND

ICE-BREAKER ODEN 'STILL GOING STRONG' WITH COMMEND COMMUNICATION

Swedish ice-breaker 'Oden' has been used for North Pole expeditions for many years. The communication solutions by TKH subsidiary Commend form a part of this ice breaker and provide unfailing service under very extreme conditions around the pole circle.

Most of the communication terminals on board have weathered the intensive use without a problem. The call to replace the communication system was purely down to how far technology has now advanced. 10 stations have now been replaced. However, the new Commend applications continue to communicate perfectly with the old equipment, thanks to the built-in and proven 'Commend Evergreen Technology'. Furthermore, intercom stations are being replaced with more robust and weather-resistant models. This moderate 'anti-ageing treatment' alone ensures Commend provides a reliable and efficient on-board communication service.

RENEWABLE ENERGY GENERATION WITH TKF'S SUBSEA CABLE SYSTEMS

Both sun and wind have become reliable elements in the generation of clean, green energy. By 2020, 12% of worldwide electricity demand will be produced by wind energy. As a consequence, additional investments have been made in wind-farms, mainly at sea, to secure this form of renewable energy generation.

TKH subsidiary TKF has responded to this development with its subsea cable systems that link together the wind turbines that make up the wind farms. Subsea cables consist of three copper or aluminium conductors for transporting the generated energy, and an optical fibre cable that transmits the measurement data from the connected installations. The subsea cable systems from TKF are supplied as a single unit, together with all the necessary accessories and connectors, for both ends. The biggest advantage of this approach is that the risk of cable faults and water penetration, for whatever reason, is excluded. The weight of a subsea cable can rise to as much as fifteen hundred tonnes. In parallel to this development, we have seen a huge rise in the power generation capacity of wind turbines. They can supply more energy, but at the same time the mechanical forces acting on the subsea cables are rising. TKF supplies cable systems with a capacity up to 66 kV (kilovolt). The unique and innovative element of TKF cables is that the cable construction is made very robust, so that the risk of damage is strongly reduced during the installation.

The way in which the cables are tested is also unique on the market. The entire cables can be tested electrical, as a single unit. The complete upgrading of the TKF factory in Lochem (the Netherlands) includes the construction of a Faraday cage, in which the cables can, for example, be tested for discharge, thereby providing a complete cable blueprint. We want to be able to offer our customers a quality label. Our entire organization has been geared to this, enabling us to correctly answer any questions put to us by our customers.

66KV

VOLTAGE LEVEL.

48KG

Kg

PER METER SUBSEA CABLE.

1.500

TON

TONNES TOTAL WEIGHT OF CABLE.

100%

TESTING OF THE ENTIRE CABLE AND PROCESS.

Cutting costs with our service concept

TKH supplies connectivity systems worldwide that meet the guidelines of reputable certification bodies. High quality, short delivery times and outstanding ease of fitting are major core values that TKH focuses on with its connectivity technology in the Marine & Offshore market, as well as in other markets. Furthermore TKH supports its customers in any way it can to contribute to greater safety and to implementing process improvements, as well as to reducing costs.

We aim to partner with our customers in projects related to shipbuilding and oil rigs. Via its local logistical services, TKH supplies cut-to-size cables and ensures the requisite labeling of these cables. This enables us to provide 'just-in-time' delivery. Moreover, the label provides the customer with the necessary information about the location where the cable is to be fitted. The main benefits to customers of this service concept are lower costs resulting from purchasing efficiency, no inventories, no waste and faster and simpler fitting. What's more, this service concept features a low percentage of errors. It is also very suited to application in other market segments, helping us safeguard not only cooperation throughout the chain, but also sustainability aspects.

Innovation and sustainability

TKH proves that innovation and sustainability work very well together. Leaving out a certain type of foil, for instance, that was used to keep cable cores separate from each other when connecting cables, resulted in a significant saving as the foil 'got in the way' when cutting cables. The solution was simple: no more foil. Simple, you'd think, but for the customer this cutting process had to be carried out thousands of times when wiring large ships. Less material was needed, contributing to greater sustainability. The market clearly places extremely high demands on material use. Connections must always be watertight and the use of materials that might cause sparks increasing the risk of explosion, is not allowed. Every cable application represents specific requirements: wind-turbine cables must be able to transport high currents. And at the installation of cables in ships, these cables must be smooth as they often have to be fed through extremely narrow openings. All top-grade and innovative connectivity technology that gives our customers peace of mind.

CASE TKF / EKB

UNIQUE FLOATING POWER PLANT

TKH subsidiaries TKF, EKB and Siqura didn't hesitate to take on a project, unknown anywhere on earth, to construct the first seaborne floating power plant: Bluewater Tidal Energy Converter, in short BlueTEC.

As a tidal energy plant, BlueTEC supplies clean energy generated by the sea's tidal motion. This energy is clean, can be generated locally and is basically infinite. The major inspiration behind the project was Bluewater Energy Services, which brought together a group of 'high-tech' enterprises, including TKF, EKB and Siqura.

BlueTEC is a floating platform, constructed from two standard rectangular sea containers with a turbine mounted below that rotates in the current to generate electricity. TKF's special subsea cable, ultimately designed to transport the electricity generated to land, is a prime example of our innovative capacity. Manufacturing of this cable was preceded by extensive research and testing by TKF in close collaboration with the Delft University of Technology. As system integrator, EKB designed the general BlueTEC automation system. In addition to designing the communication software for saving measurement data, EKB also developed the visualization and the alarm management. For data traffic, an optical fibre cable is used in TKF's subsea cable. The system ensures that all necessary data from the measuring instruments is continuously processed, stored and directly retrievable for an operator on a web page via EKB's EMI software platform. The BlueTEC sea-based camera monitoring system is supplied by Siqura.

INDUSTRIAL MACHINE VISION

Machine Vision really taking off

Innovative and high-tech 2D and 3D technology has grown in a short time into an indispensable worldwide technological application for optimizing manufacturing processes and automating and perfecting quality assurance and the inspection of production processes. This is resulting in far greater levels of efficiency in the industry.

GROWTH DRIVERS

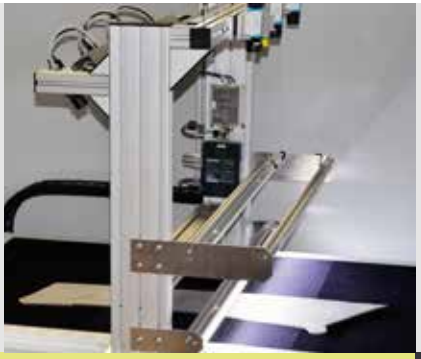
- Demand for vision technology is increasing due to trend towards industrial automation and robotics need.
- Continue demand for more productivity and improvement of high quality of produced products.
- Vision technology is a superior alternative for the inspection of production systems and for detection, inspection and identification that cannot be seen by the human eye.
- Strong increase of new applications where vision technology will be applied.
- Because of strict regulations to the quality of food and medicines, vision technology offers the solutions because of the 100% traceability and ´fail / pass' application.

SOLUTIONS

- Expertise in applying vision technology in customer´s processes.
- Sensors for inspection and quality control applications that are easy to install without interference from other parts.
- Systems that guarantee 100% inspection.
- Sensor-software features with optimal integration into customer's existing measuring instruments.
- Easy fitting and integration in existing systems.
- Direct link between readings and process controllers (PLC / computers).
- Integration of technology with robot automation.
- Automation of processes with high degree of accuracy at high speeds.
- Replaces manual input of processes requiring accuracy.

100%

UNIFORM QUALITY BY VISION TECHNOLOGY.



3,000,000

PER SEC

MEASUREMENT SPEED 3D SCAN.

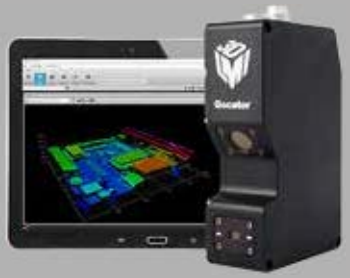
RESULTS

- High quality and inspection control of products and processes.
- Higher customer satisfaction.
- Improved quality and (operator) safety.
- Efficiency leading to cost reductions for the customer.
- Industry 4.0 application potential.
- Efficiency in processes and logistics.
- Simplification of complex inspection applications.

500

PARTS PER MINUTE

360° INSPECTION TECHNOLOGY 2D CAMERA SENSOR.



5,000

FRAMES PER SEC.

AT 2 MEGA PIXEL IMAGE SPEED 3D TECHNOLOGY.

0.3 SEC

3D

'FULL FIELD' 3D-DIGITIZATION OF OBJECTS.

2D technology relates to sensor technology in vision cameras that ensures high accuracy and rapid processing of images. The sensors provide a wide, dynamic reach so that recordings have a higher contrast and show more details, even in lighter and darker areas. Subtle nuances in colour and light are accurately reproduced.

Using 3D technology, it is possible to scan objects three-dimensionally so a great deal of information can be gathered very quickly on the object concerned. The accurate 3D measurements can then be used for material inspection and quality control, for instance.

Vision technology also illustrates the progression of the fourth industrial revolution, in short Industry 4.0, which thanks to the internet and web-based solutions, applications, products and processes is overlapping increasingly with the world of consumer products and electronics. For industry this means not only significant cost reductions but also drastic quality improvements and much more reliable production processes. All without human intervention, or as we call it at TKH, 'non-contact inspection'. This reduces the risk of errors to close to zero.

As widely distributed as telecommunication

TKH powers its vision technology to great heights in its innovative and high-tech vertical growth market Industrial Machine Vision. This market is wide and very extensive and has a major impact on many different industries and on society in general. Researchers expect 2D and 3D technology to take off and to be as widely distributed and used in 20 years as is now the case for telecommunication. It'll be used for many different applications, even in our daily lives, from 'automated' households to traffic control and inspections, security and efficiency improvements and subsequent cost-reductions in many areas.

With its vision technology, TKH provides the manufacturing industry with electronic imaging, image processing and image analysis. The data generated by these technologies then forms the basis for improving the general monitoring and productivity of manufacturing processes or helping to prevent downtime due to product failure.

CASE ALLIED VISION

A BRIGHT FUTURE FOR AGRICULTURE

Thanks to Allied Vision's advanced cameras in innovative automation systems for laboratories, researchers can now analyze how crop yields can be optimized.

The systems generate data on plant growth, root development, water absorption, desiccation and photosynthesis that were not previously available. This breakthrough is down to the fact that the Allied Vision cameras use infra-red light to obtain a very detailed picture of the way in which plants use water. Vision technology carries out quantitative, non-destructive measurements on crops cultivated in glasshouses. Plants pass a series of optical measuring stations where they are visualized using different wavelengths. This allows to reveal many more details than the human eye is able to see, and also more detail than was possible until now using other methods. Each plant passes these measuring stations in various stages of its growth cycle, enabling researchers to collect statistically relevant, comparable figures over a longer period of time.

For life scientists, the use of infra-red cameras in the low infra-red range – also known as SWIR (Short-Wave-Infra-Red) – is particularly interesting. This technology provides insight into a plant's moisture levels or the water distribution in the plant. Scientists can follow the water absorption very precisely from the roots to the leaves. Conversely evaporation and desiccation are also illustrated. Allied Vision cameras are used here too.

We primarily focus on the robotics industry, mechanical engineering, the medical and pharmaceutical industry, woodworking and the automotive market.

Efficiency and productivity

Efficiency and productivity are key concepts in every solution for industrial inspection applications. The vision-sensor cameras from TKH subsidiary Allied Vision offer high-speed interfaces for system integration and very high frame rates of up to 400 frames per second at 4 megapixels. Normal video recording, for example, runs at 'only' 24 frames per second.

Allied Vision's infra-red vision cameras are used for monitoring and inspection, including in the semiconductor industry, in the solar-cell industry to detect errors in cells, in the recycling industry to separate different types of plastic or for heat and temperature detection in the metal and/or glass industry.

The very high resolution of the vision cameras is also indispensable in the medical sector, where image processing of the smallest detail is of the greatest relevance. Such as in ophthalmology, for instance, to reveal or inspect abnormalities in the retina. Or on the other hand to give a picture of skin problems. The unique infra-red cameras reveal what conventional cameras are unable to detect. Thermal image processing, for instance, can signal sub-dermal inflammation or insufficient blood circulation.

High-tech 3D-scanning technology has also become indispensable for diagnoses and specific medical treatments, including 3D dental scanning for fitting a dental prosthesis or to establish and monitor rheumatism in hand joints. Or in cosmetic surgery to demonstrate the result of an operation in advance.

Automotive sector

3D technology is widely used in the automotive industry, for scanning car parts, for instance. A 3D scanner is mounted above the transport system and, thanks to the 3D-sensor technology, it is possible to observe different dynamic positions of an object. The 3D data obtained in this way is then sent to a robot that uses it to automatically correct preprogrammed positions and actions.

Because the 3D data is not influenced by any external factors, this results in extremely reliable data. Due to the rapid scan speed during the production process, cycle times are kept to a minimum. This means that not only is an essential check carried out, but also that customers save time and thus money.

Tire building industry

Vision technology has now proven itself in the tire building industry. And that's familiar territory for TKH, with its innovative tire manufacturing systems. Vision technology is an important part in this area, in the field of inspection and quality control.

All materials for the production of tires require quality control in terms of variations in thickness of the rubber, the colour, the consistency in groove depth, a fully smooth and flat tread and control of the DOT, which indicates the week and year of production. The Gocater 3D smart sensor by TKH subsidiary LMI Technologies, keeps a constant eye on this. The projected laser line from the Gocator follows the height profile of the tire and is 'read' by the built-in sensor and converted to a calibrated millimetre-scale height profile in width and height. This height profile is combined either with a 3D height picture or analyzed as a separate profile to establish the geometry and the quality. It measures up to 10 micro meter at speeds of between 100Hz and 2,000Hz.

3D SCANNING FOR RAPID INSPECTION

It speaks for itself that very high quality standards are demanded in the food sector. Not only in terms of the ingredients themselves, but also of the packing methods and the packaging itself.

Equipped as it is with smart 3D sensors, the Gocator from LMI Technologies ensures that the product and the packaging meet the predefined specifications. The Gocator is a 3D sensor that brings together laser, camera, optics, electronics and calibration in a single casing. The Gocator projects a laser line on a 'target'. The camera 'reads' the line profile and the calibration translates this into a millimetre-scale profile. The sensor scans an object, translates the scan into measurement data which is then used to check the process. For yoghurt-cup inspection, for instance, the Gocator is used to inspect the edge and surface quality of empty yoghurt cups. If deviation from the predefined parameters is detected, these cups are detected despite the high speed. The Gocator easily achieves a scan speed of up to 5 kHz. The Gocater attains an inspection speed for yoghurt cups of 600 cups per minute on the production line.

The Gocator is also used to check detergent packaging. The 3D scanners firstly measure and inspect the packaging for the presence of moisture. The packaging is then filled with detergent and the Gocator then checks to see if the packaging has been filled to the required level. If the level is too high or too low, the Gocator identifies the discrepancy and the packaging is removed so it can be redirected into the system for correct refilling.

Once a package has been stamped and sealed, it is still subject to one last inspection to guarantee production quality. In this phase of the packing and shipping process, the Gocator is used to check whether the dimensions of the packs meet requirements and are not damaged. The size of the packaging is scanned and measured to determine the optimum shipping strategy. The 3D data thus obtained is used for transport companies so they can estimate in good time how much space needs to be reserved for the cargo being transported. This helps to realize significant cost savings in the logistics process.

1,280
MEASUREMENT POINTS

DIVIDED ALONG THE LASER LINE.

UP TO
5,000

MEASUREMENTS PER SECOND.

10*6
MM

SMALLEST MEASURING RANGE.

1,200*800
MM

LARGEST MEASURING RANGE.

TIRE BUILDING INDUSTRY

Proven technology gives lead

Modern car tires are made of various top-grade materials, and advanced production methods turn these tires into a technological marvel. Continuous innovation ensures ever better performance and a longer lifespan at the lowest possible cost. The carcass of a truck tire, for instance, must keep going for about one million kilometres. So tire manufacturers don’t take any risks when applying changes to their production process.

GROWTH DRIVERS

- High priority of the tire manufacturing industry to replace existing technology with an emphasis on high productivity, efficiency, waste reduction, quality improvement and smaller batches.
- The number of types of tire for passenger cars has increased more than tenfold in recent decades. This calls for more flexible production methods.
- The trend towards ever larger tire dimensions and towards safer, better-quality tires requires technological developments.
- Local production - innovations have become essential to reduce the working capital requirement in the supply chain of the tire manufacturing industry.
- Over 70% of the existing tire manufacturing systems are older than 15 years.
- Due to the high prices of raw materials, there is a need for a more efficient use of materials in the production of tires which asks for high tech manufacturing systems.
- Due to rising labour costs, demands for manufacturing systems with higher productivity and high operator independence – 'eyes & hands off' manufacturing.

SOLUTIONS

- Tire building systems with fully automatic production and high productivity.
- Operator independent via 'hands-off', 'eyes-off'.
- Robotization and vision technology make systems more accurate.
- Tire building systems that maximizes output, quality, ergonomics and flexibility.
- Remote Guidance for maintenance requirements.

10,000

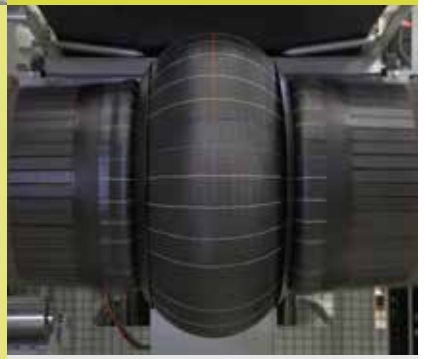
BEAD APEX PER DAY WITH A DIAMETER OF 12-24 INCHES.

700

MILEXX: 700 TRUCK TIRES PER DAY.

RESULTS

- More competitive Total Cost of Ownership.
- Maximum reliability and consistent high quality.
- High output with less material waste.
- Traceability of materials.
- High customer satisfaction.
- Minimizing set-up times, maintenance and machine complexity.
- Integration Manufacturing Execution Systems (MES).
- Considerable saving on response time, thus reducing downtime and assuring a quick continuation of the production process through 'Remote Guidance' solution.



36 SEC

MAXX: 1 CAR TIRE IN 36 SECONDS
2,000 TIRES PER DAY.

CONSIDERABLE SAVING RESPONSE TIME ENGINEERING QUESTIONS THROUGH REMOTE GUIDANCE.

40 SEC

EXXIUM: 1 CAR TIRE IN 40 SECONDS
1,500 TIRES PER DAY.

High standards are required for car and truck tires: the quality of the materials unto the way components are 'fused together' into a tire. This also requires high standards for the production process itself. TKH subsidiary VMI Group has focused exclusively on this domain for decades.

The structure of a car tire consists of multiple layers of natural or synthetic rubber, reinforced particularly in the 'sidewall' with steel wires, textile or artificial fibres. These materials together undergo a sophisticated assembly process to form a tire and guarantee good road holding (grip) and as low rolling resistance as possible for efficient use. Low wear and minimal tire noise are other important quality attributes of car and truck tires.

Although VMI is not directly involved in the development and innovation of new materials for car tires, the company does work closely with manufacturers because a change in the composition of materials has a direct impact on the way VMI constructs tires on its tire building systems. One innovation that is becoming very popular is a tire that 'seals' itself when punctured. This property is ensured by applying a viscous layer inside the tire at manufacture. Tire building machines must therefore be set up 'intelligently' enough to produce such tires as required. The same goes for winter tires, that are becoming ever softer for more grip.

Natural rubber is still superior to synthetic rubbers and is therefore primarily used for heavy duty truck tires. However, this natural product is known for its varying quality and this must be factored in at production. Weight reduction, a trend in the automotive sector, is also affecting VMI. The different components are getting thinner, so the production process has to be more precise.

Hands-off, eyes-off

VMI's answer to all these increasingly stringent requirements is far-reaching automation. The trend is clearly towards less intervention by or even the complete absence of an operator: 'hands-off', 'eyes-off' for greater and faster output with a more stable quality. The operator no longer touches the product with his hands and the process no longer needs to be monitored by a person. This used to be a sort of living quality control, but this job is now done by vision technology, sensor technology and statistical process management.

The vision technology is specifically developed for VMI's tire building systems in close cooperation with TKH subsidiaries LMI and NET. And don't forget that rubber is matt black, so clearly it has cost the TKH companies a great deal of research and development to distinguish black from black using our vision technology and to ensure analyses are carried out correctly and very precisely. The intelligent vision systems that use extremely complex

CASE VMI

MILEXX: A TECHNOLOGICAL MARVEL

VMI's MILEXX truck tire building machine is a technological marvel for the production of truck tires.

Compared to current systems on the market, the MILEXX has a much larger capacity – nearly 700 truck tires a day – that is unparalleled in the sector. Various unique technical innovations have been incorporated into the machine. For example, the Clip-Bar® for advanced fastening of material that makes it possible to mechanically apply the inner lining and the sidewalls of the tire.

Furthermore, thanks to advanced vision technology, the MILEXX is able to position components on the shaping drum with greater accuracy. All this means that the influence of the operator is decreasing, further ensuring a better quality of tire.

VMI FOCUSES ON A QUALITY BREAKTHROUGH WITH PIXXEL

For years, VMI has had a sterling reputation as an innovator in the tire building industry. MAXX technology, the 'hands off, eyes off' concept, was introduced by VMI: machine operators were replaced by Vision Monitoring systems. And that ensured higher productivity with a much more consistent tire quality. However, VMI continues to further develop its technologies. The latest development, the VMI PIXXEL, has a specific focus on Industry 4.0.

New web technologies spawn self-organizing, dynamic, multi-enterprise networks. They create added value and allow better optimization in terms of costs, and the use of raw materials and energy. Industry 4.0 makes it possible to respond very rapidly to customer requirements, to organize maintenance over the entire production time, and to organize logistics more efficiently. Industry 4.0 is more of a vision on the future than a definition.

Competitive advantages

VMI introduced cameras to the automated tire building industry many years ago. But it has now taken an important step forwards via its vision and monitoring systems under the name VMI PIXXEL. This no longer relates to just specially developed, extremely reliable cameras that deliver better machine performance. No, it is now a complete platform with the option of an online connection. It is an integrated system that makes a separate PC unnecessary, as due to smart software the system is able to detect and correct errors during the process. What's more, the software primarily uses visualization, which helps operators to follow the process in simpler terms. Many computer-controlled machines produce enormous volumes of data on a daily basis, data which is used almost exclusively for historic analysis. VMI's new approach is to generate a competitive advantage in two different ways:

- Data can be read remotely through an online connection, which facilitates remote servicing and maintenance, for instance.
- Quality-assurance processes are simplified and improve further with the availability of more output data. This meets demand from global tire manufactures to demonstrate to the market that they produce quality tires.

VMI PIXXEL brings VMI a major step closer to Industry 4.0., in which accurate inspection and measurement systems are crucial. By using accurate output data as the basis for improved quality management and demonstrable product quality, VMI aims to expand its range of automation technology, which ultimately will lead to complete integration.

REMOTE SERVICE AND MAINTENANCE.

100%

QUALITY CONTROL.

100%

REDUCTION ON OPERATORS INTERVENTIONS.

lighting, such as special laser techniques, ensure that material analyses can be carried out at high speed and very accurately during the production process, partly as a form of quality control. Included in this is the collection of all measurement and material data per tire produced via 'tracking & tracing' using barcodes or RFID chips.

On the heels of the semi-automatic tire building machines successfully introduced in 2009 (the so-called '248 family') and after the fully-automatic MAXX family for the production of passenger car tires, the MILEXX family was introduced in early 2016 to achieve an important step into the introduction for fully automatically production of truck tires.

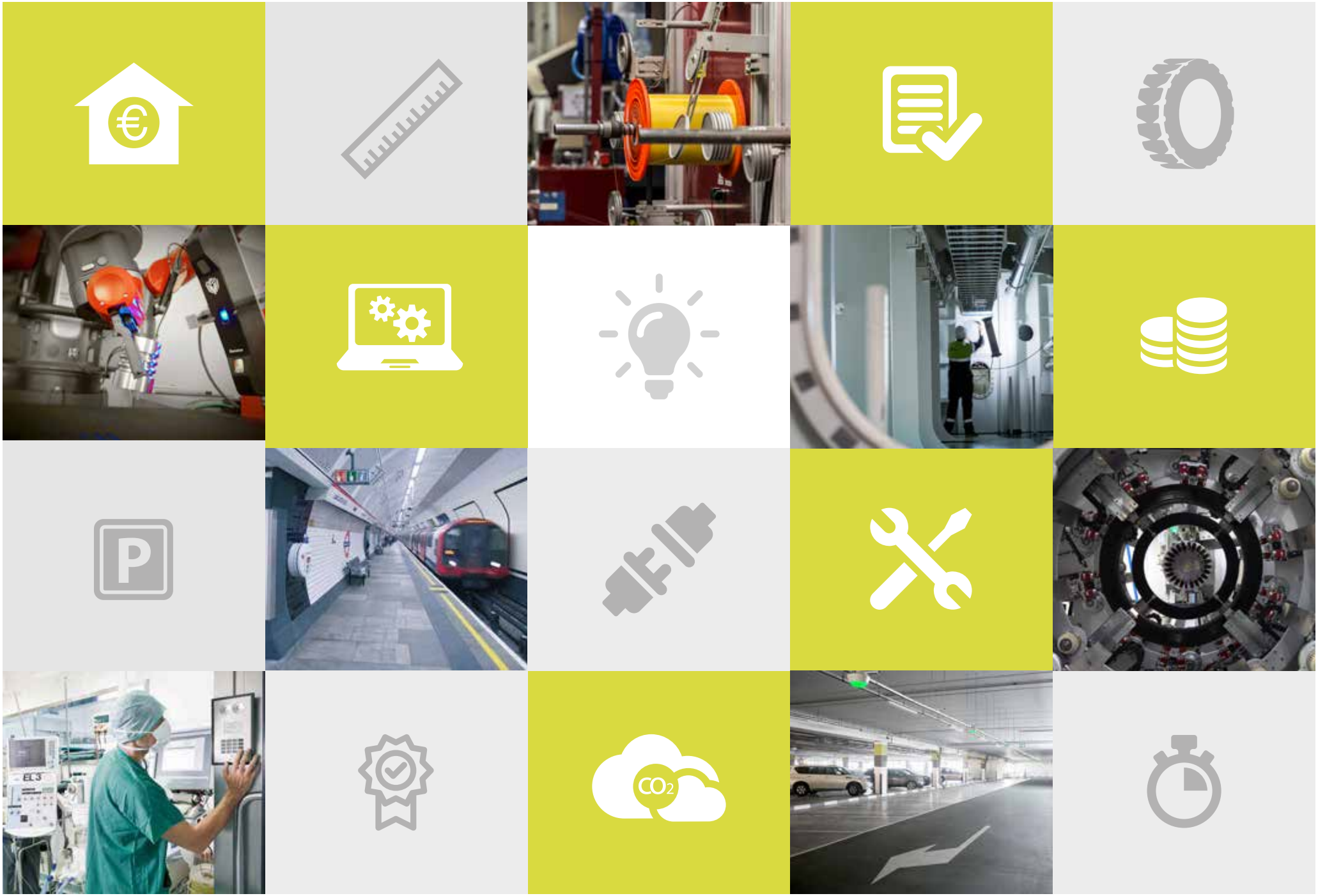
Corporate design

VMI is reinforcing this message with a corporate design that gives the machines a recognizable shape and colour scheme. All frames are a greyish white and the customer-specific colour scheme is applied only to the separate sections of the sheeting that are the final components fastened to the machine. This results in a higher degree of efficiency, as it's no longer necessary to spray complete frames in the customer's chosen colour. And that's a major benefit in logistical terms.

But there are still plenty of challenges for VMI, such as establishing interfaces between its systems and the primary control systems. But there is also a lot of attention on and research in what can be done further with the data generated during the production processes. Newer methods are being studied into how machines can be programmed faster for another tire size or how the machine can 'order' material itself instead of holding intermediate stocks. Other investigated methods relate to carrying out automatic productivity measurements and providing information to a customer's technical department, such as for preventive maintenance.

Automation, or process innovation, remains necessary. There is a chance that the essential 'character' of cars will eventually change, being seen less as a status symbol owing to the introduction of self-driving and electric cars. Though probably lower top speed will have an influence on tire production, the demand for high quality will continue.

VMI's tire building systems provide its customers with greater efficiency and therefore revenue. We offer exceptional efficiency in the tire building industry as the productivity and availability of our systems are very high and we maintain full control of our logistics processes relating to our systems. From beginning to end, everything basically runs in a closed loop at all levels of the production process, with our track & trace system allowing us to collect all measurement data imaginable, from raw materials to warehouse storage. Our high degree of efficiency, reliability and quality offer endless possibilities.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SUMMARIZED FINANCIAL STATEMENTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

In thousands of euros	2016	2015
Net turnover	1,338,516	1,372,038
Other operating income	2,468	3,114
Total turnover	**1,340,984**	**1,375,152**
Changes in inventory of finished goods and work in progress	-2,094	10,281
Raw materials, consumables, trade products and subcontracted work	711,822	732,947
Personnel expenses	331,426	326,897
Depreciation	22,109	21,387
Amortization	32,568	31,615
Impairments	209	1,476
Other operating expenses	131,213	132,109
Total operating expenses	**1,227,253**	**1,256,712**
Operating result	**113,731**	**118,440**
Financial income	1,814	2,234
Financial expenses	-9,344	-10,464
Exchange differences	-125	422
Share in result of associates	933	657
Result before tax	**107,009**	**111,289**
Tax on profit	19,702	22,953
Net result	**87,307**	**88,336**
Attributable to:		
Shareholders of the company	85,707	86,154
Non-controlling interests	1,600	2,182
	87,307	**88,336**
Earnings per share attributable to shareholders		
Ordinary earnings per share (in €)	2.04	2.07
Diluted earnings per share (in €)	2.03	2.06
Ordinary earnings per share before amortization and one-off income and expenses (in €) [1]	2.25	2.40
Ordinary earnings per share before amortization (in €) [1]	2.31	2.37

1 Non IFRS compulsory disclosure.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of euros	2016	2015
Net result	**87,307**	**88,336**
Items that may be reclassified subsequently to profit or loss (net of tax)		
Currency translation differences	835	4,678
Currency translation differences in other associates	-159	392
Effective part of changes in fair value of cash flow hedges (after tax)	1,044	988
Revaluation of available-for-sale financial assets	880	1,360
	2,600	**7,418**
Items that will not be reclassified subsequently to profit or loss (net of tax)		
Actuarial gains/(losses)	-560	-180
	-560	**-180**
Other comprehensive income (net of tax)	**2,040**	**7,238**
Comprehensive income for the period (net of tax)	**89,347**	**95,574**
Attributable to:		
Shareholders of the company	87,754	93,087
Non-controlling interests	1,593	2,487
Total comprehensive income for the period (net of tax)	**89,347**	**95,574**

CONSOLIDATED BALANCE SHEET

Before profit appropriation

In thousands of euros	31-12-2016	31-12-2015
Assets		
Non-current assets		
Intangible non-current assets	395,521	400,264
Tangible non-current assets	213,103	192,186
Investment property	1,491	3,658
Financial non-current assets	25,170	22,754
Deferred tax assets	20,768	11,573
Total non-current assets	**656,053**	**630,435**
Current assets		
Inventories	206,949	194,240
Receivables	192,967	170,377
Amounts due from customers under construction contracts	100,568	74,160
Current income tax	1,433	2,555
Cash and cash equivalents [1]	88,496	178,955
Total current assets	**590,413**	**620,287**
Assets held for sale	0	0
Total assets	**1,246,466**	**1,250,722**

In thousands of euros	31-12-2016	31-12-2015
Equity and liabilities		
Group Equity		
Shareholders' equity	574,000	520,847
Non-controlling interests	8,520	8,570
Total group equity	**582,520**	**529,417**
Non-current liabilities		
Non-current liabilities	213,913	223,073
Deferred tax liabilities	52,660	51,127
Retirement benefit obligation	7,957	7,204
Financial liabilities	9,655	26,089
Provisions	5,914	3,700
Total non-current liabilities	**290,099**	**311,193**
Current liabilities		
Borrowings [1]	51,992	126,234
Trade payables and other payables	248,172	209,357
Amounts due to customers under construction contracts	45,794	54,136
Current income tax liabilities	7,370	10,480
Financial liabilities	13,217	577
Provisions	7,302	9,328
Total current liabilities	**373,847**	**410,112**
Total equity and liabilities	**1,246,466**	**1,250,722**

1 Including € 29.8 million (2015: € 114.3 million) cash and cash equivalents that are part of the cash and interest pools.

CONSOLIDATED STATEMENT OF CHANGES IN GROUP EQUITY

In thousands of euros	Share capital	Share premium	Legal reserve	Revaluation reserve	Investments revaluation reserve	Translation reserve	Cashflow hedge reserve	Retained earnings	Unappropriated profit	Total shareholders' equity	Non-controlling interests	Total group equity
Balance at 31 December 2014	**10,511**	**85,219**	**35,731**	**874**	**2,802**	**16,155**	**-4,625**	**253,263**	**82,822**	**482,752**	**17,174**	**499,926**
Net result									86,154	86,154	2,182	88,336
Total other comprehensive income					1,360	4,765	988	-180		6,933	305	7,238
Total comprehensive income	**0**	**0**	**0**	**0**	**1,360**	**4,765**	**988**	**-180**	**86,154**	**93,087**	**2,487**	**95,574**
Appropriation profit last year								82,822	-82,822	0		0
Capital contribution										0	8	8
Dividends	96	-96						-28,071		-28,071		-28,071
Dividends to shareholders of non-controlling interests								-619		-619		-619
Acquisition of non-controlling interests								-22,493		-22,493	-11,099	-33,592
Share and option schemes (IFRS 2)								2,516		2,516		2,516
Purchased shares for share and option schemes								-10,791		-10,791		-10,791
Sold shares for share and option schemes								4,466		4,466		4,466
Change in legal reserve for participations			-54					54		0		0
Capitalized development costs			-760					760		0		0
Balance at 31 December 2015	**10,607**	**85,123**	**34,917**	**874**	**4,162**	**20,920**	**-3,637**	**281,727**	**86,154**	**520,847**	**8,570**	**529,417**
Net result									85,707	85,707	1,600	87,307
Total other comprehensive income					880	683	1,044	-560		2,047	-7	2,040
Total comprehensive income	**0**	**0**	**0**	**0**	**880**	**683**	**1,044**	**-560**	**85,707**	**87,754**	**1,593**	**89,347**
Appropriation profit last year								86,154	-86,154	0		0
Capital contribution										0	20	20
Dividends	102	-102						-32,038		-32,038	-1,616	-33,654
Dividends to shareholders of non-controlling interests								-491		-491		-491
Acquisition of non-controlling interests								-95		-95	-47	-142
Reversal of revaluation				-459				6		-453		-453
Share and option schemes (IFRS 2)								1,989		1,989		1,989
Purchased shares for share and option schemes								-8,277		-8,277		-8,277
Sold shares for share and option schemes								4,764		4,764		4,764
Change in legal reserve for participations			-1,058					1,058		0		0
Capitalized development costs			9,354					-9,354		0		0
Balance at 31 December 2016	**10,709**	**85,021**	**43,213**	**415**	**5,042**	**21,603**	**-2,593**	**324,883**	**85,707**	**574,000**	**8,520**	**582,520**

CONSOLIDATED CASH FLOW STATEMENT

In thousands of euros	2016	2015
Cash flow from operating activities		
Operating result	113,731	118,440
Badwill not resulting in an operational cash flow	-645	
Depreciation, amortization and impairment	56,729	55,735
Share and option schemes not resulting in a cash flow	1,989	2,516
Gain on disposal of tangible assets	-710	-1,256
Changes in provisions	-2,141	-542
Changes in financial liabilities	-613	-247
Changes in working capital	-27,864	43,424
Cash flow from operations	**140,476**	**218,070**
Interest received	1,814	2,234
Interest paid	-9,284	-9,964
Income taxes paid	-29,595	-28,771
Net cash flow from operating activities (A)	**103,411**	**181,569**
Cash flow from investing activities		
Capital contribution	20	8
Dividends received from non-consolidated associates	578	659
Loans	-585	-1,520
Purchases of tangible non-current assets	-47,393	-39,683
Disposals of tangible non-current assets	2,066	2,478
Net cash flow on investments and divestments of investment property		-172
Divestments in assets held for sale		3,050
Divestment of subsidiaries	2,663	
Divestment of associates	411	
Acquisition of subsidiaries	-761	-49,660
Acquisition of associates		-2,400
Investments in intangible non-current assets	-28,926	-25,386
Divestments in intangible non-current assets	141	
Net cash flow from investing activities (B)	**-71,786**	**-112,626**

In thousands of euros	2016	2015
Cash flow from financing activities		
Dividends paid	-34,145	-28,690
Settlement of financial liabilities regarding put options of non-controlling interests and earn-out	-745	-2,205
Acquisition of non-controlling interests	-142	-25,175
Purchased shares for share and option schemes	-8,277	-10,791
Sold shares for share- and option schemes	4,764	4,466
Repayments on long-term debts	-11,365	-38,166
Proceeds from other long-term debts	2,205	
Change in borrowings	9,453	7,743
Net cash flow from financing activities (C)	**-38,252**	**-92,818**
Net (decrease)/increase in cash and cash equivalents (A+B+C)	-6,627	-23,875
Exchange differences	630	-1,756
Change in cash and cash equivalents	**-5,997**	**-25,631**
Cash and cash equivalents at 1 January	64,701	90,332
Cash and cash equivalents at 31 December	**58,704**	**64,701**

NOTES TO THE SUMMARIZED FINANCIAL STATEMENTS

SUMMARIZED FINANCIAL STATEMENTS

This condensed Annual Report 2016 is a summarized version of the full annual report 2016 of TKH. The full Annual Report 2016 is the official reporting document for Dutch statutory purposes. The financial overviews in the summarized financial statements are derived from the audited financial statements 2016 of TKH, which is part of the full Annual Report 2016. 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 2016 prevails. The full Annual Report 2016 (including Financial Statements) can be downloaded from the website of TKH: www.tkhgroup.com.

ACCOUNTING PRINCIPLES

The consolidated financial statements of TKH Group NV (hereafter 'TKH') have been drawn up in accordance with the International Financial Reporting Standards ('IFRS') adopted by the European Commission and applicable on the accounting period that begins on 1 January 2016. The principles for the recognition and measurement of assets and liabilities and determination of the result, as prescribed by IFRS, have not been included in the financial statements. For a complete overview is referred to the full financial statements of TKH.

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

OVERVIEW OF NET PROFIT DEFINITIONS

In thousands of euros	2016	2015
Net profit	87,307	88,336
Less: Non-controlling interests	-1,600	-2,182
Net profit attributable to the shareholders of the company	**85,707**	**86,154**
Net profit	87,307	88,336
Amortization of intangible non-current assets from acquisitions	15,723	17,283
Taxes on amortization	-4,267	-4,690
Net profit before amortization	**98,763**	**100,929**
Less: Non-controlling interests	-1,600	-2,182
Net profit before amortization attributable to the shareholders of the company	**97,163**	**98,747**
Net profit before amortization	98,763	100,929
Impairments	209	1,476
Tax impact on one-off expenses and benefits	-367	-282
One-off tax benefit	-2,650	
	95,955	102,123
Less: Non-controlling interests	-1,600	-2,182
Net profit before amortization and exceptional income and expenses attributable to the shareholders of the company	**94,355**	**99,941**

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 in the full annual report, is shown in which of the solutions the different subsidiaries operate. In the annual report a detailed overview of the activities by business segment is shown. TKH reports its primary business segment information based on these solutions.

Operating segments

In thousands of euros (unless stated otherwise)	Telecom Solutions 2016	Telecom Solutions 2015	Building Solutions 2016	Building Solutions 2015	Industrial Solutions 2016	Industrial Solutions 2015	Unallocated revenues and costs 2016	Unallocated revenues and costs 2015	Total 2016	Total 2015
Turnover										
External turnover	168,531	166,128	574,903	581,615	597,550	627,392		17	1,340,984	1,375,152
Total turnover	**168,531**	**166,128**	**574,903**	**581,615**	**597,550**	**627,392**	**0**	**17**	**1,340,984**	**1,375,152**
Result										
EBITA	17,877	15,774	62,406	64,639	79,543	84,847	-13,318	-13,729	146,508	151,531
ROS	*10.6%*	*9.5%*	*10.9%*	*11.1%*	*13.3%*	*13.5%*			*10.9%*	*11.0%*
Impairments	139		-1,883	-520	-98	-956	1,633		-209	-1,476
Amortization	-828	-703	-24,622	-25,277	-7,091	-5,531	-27	-104	-32,568	-31,615
Segment operating result	**17,188**	**15,071**	**35,901**	**38,842**	**72,354**	**78,360**	**-11,712**	**-13,833**	**113,731**	**118,440**

In thousands of euros (unless stated otherwise)	Telecom Solutions 2016	Telecom Solutions 2015	Building Solutions 2016	Building Solutions 2015	Industrial Solutions 2016	Industrial Solutions 2015	Other and eliminations 2016	Other and eliminations 2015	Total 2016	Total 2015
Other information										
Investments in intangible and tangible non-current assets	12,214	10,235	44,891	85,835	20,386	22,709	560	180	78,051	118,959
Depreciation and amortization	3,370	3,967	33,763	33,090	17,198	15,676	346	269	54,677	53,002
Employees (FTE)	691	699	2,335	2,309	2,460	2,356	23	23	5,509	5,387
Balance sheet										
Assets	149,072	138,123	644,565	598,554	419,285	429,565	23,319	74,040	1,236,241	1,240,282
Other associates	7,375	6,908	2,847	3,532			3		10,225	10,440
Consolidated total assets									**1,246,466**	**1,250,722**
Liabilities	**36,626**	**35,468**	**155,844**	**134,240**	**189,812**	**169,878**	**281,664**	**381,719**	**663,946**	**721,305**

In thousands of euros (unless stated otherwise)	Non-current assets [1] 2016	Non-current assets [1] 2015	Turnover 2016	Turnover 2015	Employees (FTE) 2016	Employees (FTE) 2015
Geographic segments						
Netherlands	228,804	209,627	251,290	259,662	35%	36%
Europe (other)	277,507	278,391	611,567	604,470	42%	40%
Asia	47,638	47,923	264,099	308,351	16%	17%
North America	75,793	78,731	168,626	160,495	6%	6%
Other	5,543	4,190	45,402	42,174	1%	1%
Total	**635,285**	**618,862**	**1,340,984**	**1,375,152**	**100%**	**100%**

1 Non-current assets excluding deferred tax assets.

OTHER INFORMATION

PROPOSAL FOR PROFIT APPROPRIATION

In thousands of euros

Net profit accountable to shareholders € 85,707.

In accordance with Article 33 of the articles of association, we propose paying the holders of (depositary receipts of) ordinary shares a dividend of € 1.10 per (depositary receipt of) ordinary share.

The dividend will be made available for payment on 10 May 2017. The dividend for 4,000 priority shares has been set at € 0.05 per share of € 1.00.

INDEPENDENT AUDITOR'S REPORT

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

Our opinion

The summary financial statements 2016 (hereinafter: the summary financial statements) of TKH Group N.V. in Haaksbergen is derived from the audited financial statements 2016 of TKH Group N.V.

In our opinion the accompanying financial statements are consistent, in all material aspects, with the audited financial statements 2016 of TKH Group N.V., on the basis as described in the related explanatory notes.

The summary financial statements comprise:

- The balance sheet at 31 December 2016
- The following statements over 2016:
  The consolidated profit and loss account
  The statement of comprehensive income, changes in equity and cash flows for the year then ended
- The accompanying related explanatory information

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. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent after the date of our report on those financial statements of March 6, 2017.

The audited financial statements and our auditor's report thereon

We expressed an unqualified audit opinion on the financial statements 2016 of TKH Group N.V. in our auditor's report of March 6, 2017.

Responsibilities of Executive and the 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 summary financial statements 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, March 22, 2017

Ernst & Young Accountants LLP
A.E. Wijnsma

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REPORTING SYSTEM CSR

Procedures, standards and guidelines

In the annual report 2016, we provide an account of, among other things, our performance in the area of CSR during the year under review from 1 January 2016 up to 31 December 2016. The legal publication date of the report is 22 March 2017. We discuss the topics that have been an integral part of our CSR policy for several years and report on them in line with the Global Reporting Initiative (GRI) 4.0. The report's content and framework are based on a materiality analysis that identifies the material issues of greatest relevance for TKH, which are then used to decide the scope and boundaries of the CSR reporting. The Global Reporting Initiative (GRI) guidelines were used to define and set our KPIs. In the GRI 4.0 guidelines, it is important that a company makes an estimate of issues that are of sufficient importance to merit reporting. The significance (materiality) of the issues to be selected is determined through analysis of the impact of the key data on people, the environment and society, in relation to the value stakeholders attach to those issues. See the Materiality Matrix and the GRI table.

The principle of Integrated Reporting is further implemented in the management report of the Annual Report 2016. 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 management report on the basis of qualitative and quantitative information. The format of the IIRC model is also held with the explanation of the trends in the CSR report and the risk management section.

In compiling the CSR report, we used information and results derived from our monthly internal reporting structure and available from our organizations as part of their compliance with the ISO 14001 environmental management system, the OHSAS 18001 health & safety management system, the CO_2 Performance Ladder. The CSR Performance Ladder and the Dutch Corporate Governance Code. In addition, we used the findings and recommendations on the basis of providing information on the CDP platform.

Emission factors are values that are used to convert the amounts of energy used, such as liters of petrol or cubic meters of natural gas, into the amount of CO_2 emissions they produce. In calculating the CO_2 impact of its operations, TKH relies as much as possible on the list of emission factors drawn up by SKAO, Stimular, Connekt Environment Centre and the Ministry of Infrastructure and the Environment.

To measure and report the CO_2 emissions, we use the distribution in the scopes of the Greenhouse Gas (GHG) protocol.

- Scope 1 covers the CO_2 emissions caused by fuels that we purchase and consume by ourselves, and concerns mainly gas, petrol and diesel.
- Scope 2 covers CO_2 emissions from electricity consumption.
- Scope 3 emissions covers CO_2 from fleet (commuting), waste generated from own operations and transportation of goods.

Our focus remains primarily on scope 1 and 2, because these scopes are directly affected by our operations and most of our emissions occurs within those scopes.

This list was compiled with the utmost care and offers TKH the advantage of being a reliable, verifiable source for almost all emission factors. The list also incorporates the latest findings with regard to including supply chain emissions in the production of energy sources. In addition, in calculating the Carbon Footprint, we adopt the 'The Greenhouse Gas Protocol' reporting standard of the World Resources Institute and the World Business Council for Sustainable Development (www.ghgprotocol.org) and we are also guided by the MJA3 Covenant.

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

As far as human rights are concerned, it goes without saying for TKH that its business activities should be conducted in accordance with the Universal Declaration of Human Rights. We refer to our code of conduct and the code of supply (both can be downloaded from the website www.tkhgroup.com). We support the OECD guidelines that provide us with guidance regarding such issues as supply chain responsibility, human rights, child labour and the environment.

We have taken a closer look the Sustainable Development Goals (SDG) which are determined in September 2015 by the United Nations General Assembly. We have set the objectives against our strategy and our CSR policy. An initial analysis shows that our strategy is directly related to several targets from SDG and that we already support some targeted goals and programs. As TKH we can really make a difference with our products and total solutions that we bring to market. In 2017, we will orient ourselves to what extent the SDG targets can be further developed in internal sustainability programs.

We have provided our input in 2016 to the Carbon Disclosure Project (CDP), a non-profit organization requesting the environmental impact of organizations on behalf of investors and public authorities on the basis of its own development platform. The report made several suggestions for improvement which we will analyze in more detail for possible implementation.

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

We have used data from Statistics Netherlands for the benchmark data on absenteeism. The benchmark data for the employee satisfaction survey came from the research firm Integron.

Scope and changes compared to last year

The CSR policy is not adjusted in 2016. 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. Several definitions are added to the dashboard in the year under review year, such as membership / participation in trade associations and supply chain initiatives, diversity regarding people with restricted opportunities on the labour market. From 2016, new internal targets for energy and CO_2 reduction are determined; 5% energy reduction in 2020 and 2.5% CO_2 reduction by 2020 with 2015 as the reference year. Simultaneously, we have broadened the scope for companies acting in production, distribution and warehouse environment. The operating companies that are active in an office environment are not included in the scope any more. The nature of the activities of these companies do not affect energy consumption materially.

Unless otherwise stated, the data are based on all our domestic and foreign subsidiaries. Where this is not so, explicit mention will be made of this. The subsidiaries acquired will start reporting on CSR in accordance with the TKH reporting structure in the year following acquisition. Companies in which TKH has a minority ownership interest are not included in the report. Consolidation of data occurred along the same lines as the system used in the financial consolidation. Any estimates made are based on historical information.
No changes have been made in the materiality matrix. Like last year we do not report on those topics that are less material. This concerns the following themes: local presence, customer privacy, local politics and biodiversity.

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

Internal audit

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

TKH does not have the CRS report verified externally. At the moment, the priority lies in investing time and commitment in implementing sustainability within the organization. However, we did have an external advisor check the CRS chapter against the GRI 4.0 guidelines. We have also made further steps regarding integrated reporting.

The following groups provided input for the content of TKH's CSR report.

Shareholders

- CSR was discussed in the course of dealing with the 2015 annual report in the AGM on 26 April 2016
- A Shareholders Day on 20 September 2016.
- The representatives of (institutional) investors and some investment funds provide a list of priorities every year.

Management

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

Employees

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

Customers and suppliers

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

Ministry of Economic Affairs

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

Stakeholders dialogue

- Through the stakeholder dialogue on 6 December 2016, the following topics were discussed: the impact of climate change, circular economy and transparency / integrated reporting. Surveys conducted among shareholders, analysts, customers, suppliers, employees, consultancies and NGOs.

CSR in the organization

To safeguard the CSR policy, the Executive Board is directly involved in CSR developments within the TKH organization and personal targets are linked to CSR performance (see also Remuneration Report of the Executive Board).

TKH's Company Secretary (also compliance officer) 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 and Control, who is also a member of the management board, due to reporting on CSR issues at the subsidiaries. There is also close co-operation with TKH's Internal Auditor in relation to his auditing of CSR themes during the audit reviews. Contacts with the confidential officers rely on the operation of the TKH code of conduct and the associated whistleblowers regulations.

New CSR initiatives are preferably developed in working groups. This expedites the building of support within the Group and makes implementation more efficient and effective. Initiatives in the value chain are always attended by commercial managers in order to guarantee a pragmatic approach.

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

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

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

TEN YEARS OVERVIEW

in millions of euros	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Consolidated profit and loss account										
Turnover	**1,341**	**1,375**	**1,346**	**1,198**	**1,102**	**1,061**	**894**	**726**	**997**	**838**
Changes in inventory of finished goods and work in progress [1]	-2	10	-5							
Raw materials, consumables, trade products and subcontracted work	712	733	775	699	652	649	545	430	628	528
Personnel expenses	331	326	296	277	234	210	174	158	186	158
Depreciation [2]	22	22	20	19	17	15	14	16	17	12
Other operating expenses	131	133	124	103	113	95	88	81	90	74
Total operating expenses	**1,194**	**1,224**	**1,210**	**1,098**	**1,016**	**969**	**821**	**685**	**921**	**772**
EBITA before one-off income and expenses	**147**	**151**	**136**	**100**	**86**	**92**	**73**	**41**	**76**	**66**
One-off income and expenses			9	-7	-12	-2		-12		
EBITA	**147**	**151**	**145**	**93**	**74**	**90**	**73**	**29**	**76**	**66**
Impairments		1	1					4	-3	
Amortization	33	32	26	26	21	13	11	9	6	3
Operating result	**114**	**118**	**118**	**67**	**53**	**77**	**62**	**16**	**73**	**63**
Financial result	-7	-7	-10	-13	-12	-7	-7	-11	-8	-5
Result on ordinary activities before taxes	**107**	**111**	**108**	**54**	**41**	**70**	**55**	**5**	**65**	**58**
Taxes	20	23	22	12	10	16	14	2	15	12
Net result	**87**	**88**	**86**	**42**	**31**	**54**	**41**	**3**	**50**	**46**
Non-controlling interests	1	2	3	5	3	1	1			1
Attributable to shareholders	86	86	83	37	28	53	40	3	50	45

Key figures (as % unless stated otherwise)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
EBITA as % of the total turnover (ROS) [3]	10.9	11.0	10.0	8.3	7.8	8.7	8.2	5.6	7.6	7.9
Return as % of the shareholders' equity [2] [3]	16.5	19.3	17.8	13.7	11.7	16.5	13.9	6.4	16.3	15.5
EBITA in % of the average capital invested (ROCE)	20.1	22.1	21.2	15.9	15.9	21.5	20.0	9.8	16.5	15.3
Net debt / EBITDA ratio [2] [3]	1.0	0.9	1.0	1.5	1.6	0.9	0.7	1.2	1.7	1.8
Net result as % of the total turnover [2] [3]	7.2	7.4	6.6	5.0	4.5	5.6	5.0	2.5	5.0	4.9

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

2 After restatement as a result of change in accounting principles for land and buildings and prior period restatements (see Accounting Principles) for the years 2014 up to 2016. The years 2006 up to 2013 have not been restated.

3 Before one-off income and expenses. The one-off income and expenses in 2016 were impairments, on balance, of € 0.2 million (2015: € 1.5 million) and tax income of € 3.0 million (2015: € 0.3 million). In 2014 a one-off defined pension benefit gain of € 9.4 million is included. In 2013, one-off expenses arising from restructurings and impairments of € 7.2 million and € 0.2 million are included. The non-recurring items in 2012 relate to restructuring and acquisition costs of € 12.2 million, release of provisions for earn-out and put options of € 3.0 million and the tax benefit of about € 2.8 million. In 2011, the acquisition cost totaled € 2.0 million.

In millions of euros	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Consolidated balance sheet										
Intangible non-current assets	395	400	352	349	343	204	168	167	169	149
Tangible non-current assets [1]	215	196	176	199	195	171	157	151	165	146
Financial non-current assets	46	34	28	30	31	23	19	10	9	8
Total non-current assets	**656**	**630**	**556**	**578**	**569**	**398**	**344**	**328**	**343**	**303**
Inventories	207	194	202	185	197	165	138	115	140	145
Receivables	295	248	288	234	201	187	165	146	225	202
Cash and Cash equivalents	88	179	145	80	66	29	23	44	10	10
Total current assets	**590**	**621**	**635**	**499**	**464**	**381**	**326**	**305**	**375**	**357**
Assets held for sale			3		7	7	7	9	3	1
Total assets	**1,246**	**1,251**	**1,194**	**1,077**	**1,040**	**786**	**677**	**642**	**721**	**661**
Shareholders' equity [1]	574	521	483	378	364	356	317	281	292	264
Non-controlling interests	8	9	17	61	60	2	2	1	1	1
Group Equity	**582**	**530**	**500**	**439**	**424**	**358**	**319**	**282**	**293**	**265**
Provisions [1]	74	71	68	112	105	75	54	64	60	68
Non-current liabilities	214	223	259	259	202	124	55	72	126	86
Borrowings	52	126	59	15	60	4	32	41	71	88
Financial liabilities	23	27								
Other current liabilities	301	274	294	252	249	225	217	183	171	154
Total equity and liabilities	**1,246**	**1,251**	**1,194**	**1,077**	**1,040**	**786**	**677**	**642**	**721**	**661**

Other information in euros (unless stated otherwise)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Solvency (in %)	47	42	42	41	41	46	47	44	41	40
Investments in tangible non-current assets	46	38	34	19	25	22	21	11	32	29
Depreciations of tangible non-current assets	23	23	20	19	17	15	14	17	17	13
Cash flow from operating activities	103	182	95	79	75	47	55	152	53	38
Number of shares outstanding and held by third parties at year end (x 1,000)	42,161	41,724	41,400	37,985	37,658	37,284	36,885	36,293	35,290	34,638
Net result per ordinary share of € 0.25	2.04	2.07	2.14	0.98	0.76	1.44	1.10	0.07	1.43	1.30
Net result before one-off income and expenses and amortization per share	2.25	2.40	2.23	1.48	1.27	1.63	1.21	0.49	1.34	1.34
Dividend per share	1.10	1.10	1.00	0.75	0.65	0.75	0.61	0.50	0.66	0.66
Highest share price during year under review	38.14	40.50	27.18	26.40	20.86	23.80	19.61	13.95	17.41	23.41
Lowest share price during year under review	28.47	25.35	22.13	18.55	15.41	13.24	12.52	6.35	7.04	13.62
Share price at year-end	37.59	37.44	26.36	25.40	19.50	16.95	19.61	13.95	8.00	14.96

1 After restatement as a result of change in accounting principles for land and buildings and prior period restatements (see Accounting Principles) for the years 2014 up to 2016. The years 2006 up to 2013 have not been restated.

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 2016 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.

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 Fiber-To-The-Home connection. The latter solution currently offers the fastest (internet) connection with a transport speed of at least 10 megabits per second. Symmetric it is many times faster than connections with ADSL and coax modems.

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

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

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

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

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

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

C2000: a closed (private) communication network and intended for use by the Dutch emergency and security services.

Data communication: communication of digital information between computers.

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

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

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

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

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

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

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

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

Indoor telecom: telecommunication facilities in the home.

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

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

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

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

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

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

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

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

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

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

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

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

Optical fibre cable is a cable with one or more coated conductors of very pure glass for the transfer of signals on a carrier wave of light; applied in data and telecommunication.

Optical fibre production optical fibre is produced in a 25-meter high drawing tower in conditioned ultraclean conditions.

Outdoor telecom: telecommunication facilities outside the home.

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

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

Preform: is a tube of glass and can be compared with a large model of an optical fibre. The preform is much shorter and thicker than the optical fibre, but otherwise an exact copy. The optical fibre is created by pulling out the preform. This is done by inserting the end of the preform in a furnace to be heated to above 2,000°C. At the bottom of the preform a glass drop appears. This is picked up and formed into an optical fibre by pulling the fibre till it has the desired diameter. The dimensions of preforms are present such that from a single preform thousands of kilometers of optical fiber can be pulled.

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 fiber optic cable, intended to send measurement data to the connected systems.

System concepts: TKH increasingly specializes in the integration of individual components into total systems. Such systems offer the client a lot of added value and operational safety.

Technology: the systematic way of applying new, scientific or other organized knowledge for practical purposes.

Technology - Vision & security: CCTV technology in combination with the digital processing of visual information to produce usable images or information for interpretation by people and/or machine. At TKH, vision technology plays an important role in, for example, medical solutions, industrial automation (tire manufacturing, automotive, robotic and logistics) and in security solutions. Our security technology makes it possible to control and monitor the built environment in the field of safety, comfort, communication and efficiency, and includes alarms, mission critical communication systems, access and registration systems and evacuation systems.

Technology – Communication: our communication technologies focus on image transfer, speaking and listening connections, security and control. For security in buildings, the communication technology is usually combined with our vision & security technologies. We promote among others efficiency, safety and security in tunnels, multi-story car parks, extramural and intramural care, airports, football stadiums, schools and financial institutions. We meet the highest requirements with respect to the European directives on safety.

Technology – Connectivity: a complete portfolio of connectivity solutions for energy distribution and electrical applications in the construction and infrastructure sectors, as well as fibre-optic systems for data and communication networks. With our connectivity technology, we are able to develop customized specialty cables and connectors, as well as connectivity systems, for the most diverse applications in high-tech environments, including the industrial, marine & offshore, oil and gas and medical sector.

Technology - Manufacturing systems: technologies for the control and monitoring of industrial processes, including complete production systems for the production of car and truck tires, tin processing and healthcare industries. Systems engineering and assembly, control and analysis software, as well as connectivity and vision technology, are the basic building blocks for the distinctive production systems supplied by TKH. With these technologies we can respond to the growing wishes of a number of specialized industrial sectors such as the tire manufacturing, robot, medical and machine industries.

Telecommunication infrastructure: the entity of cables, plugs, cabinets, etc. that is required to connect telephone, Internet, mobile phone exchanges.

Telecom Solutions: consists of solutions ranging from a basic infrastructure to home networking applications, both for outdoor telecom and indoor telecom (ICT) markets.

Total solution: by acting as a one-stop-shopping supplier for projects, the subsidiaries of TKH deliver a complete packet of products, including advice, project management, installation, training and maintenance.

Total Cost of Ownership (TCO): the sum of Capex and Opex. The Capex expenditure is often high initially but over the life of a system, the Opex will eventually be the largest cost component of TCO. *

Vertical market: is a market in which goods and services are offered which is specific to an industry, trade, profession or other group of customers with specific needs. It differs from a horizontal market, where vendors offer a wide range of goods and services to a large group of customers with a wide range of needs.

Vertical - Fibre Optic Networks: TKH develops, produces and supplies complete fibre optic networks, with their associated fibre optic cable connectors, tubes, sleeves, fibre management systems, security systems, robotic systems and other accessories. Everything is plug-and-play, enabling projects to be completed efficiently and on time. Where necessary, we help customers with training and provide support during the engineering process, in the construction of the networks and in maintenance.

Vertical - Tunnel & Infra: TKH supplies innovative communication and security solutions for the tunnel and infrastructure sector including integrated image, intercom, public address and camera systems, and fire-resistant connectivity systems. Our solutions meet the high standards for tunnel safety that allow tunnels to be open safely and on time. In addition, we comply with the most stringent conditions for project design and implementation, and we ensure that all system requirements will be met.

Vertical – Parking: TKH develops and produces innovative parking systems, ranging from proprietary video analytics technology focused on monitoring parking lots and streamlining traffic in parking garages, to integrated access control, intercom and camera systems. Parking garages can be managed at any time and from any workplace. In addition, TKH has a nationwide service organization. We provide professional project management as well as support and advice on the design and realization of parking projects.

Vertical – Care: through a combination of electronic engineering and ICT, TKH provides the healthcare sector with intelligent solutions in the fields of observation, surveillance, visual communication, social alarm systems and video care for hospitals and home care. Our starting point is that monitoring and alarming can be personalized to the individual needs of the client or resident. For the pharmaceutical industry, TKH develops fully automated logistics systems for medicine distribution. In addition, TKH provides total solutions for care and nursing homes, care for the disabled, mental health care and hospitals.

Vertical - Marine & Offshore: platforms and ships are complex systems. TKH delivers innovative, fire-resistant connectivity systems as well as integrated security, intercom and communication systems for application on ships and platforms.

Vertical - Industrial Machine Vision: vision technology consists of camera technology used in combination with the digital editing of visual information to provide usable images or information for interpretation by humans and/or machines. In Industrial Machine Vision, vision technology is used to monitor, verify or adjust industrial processes. We supply the robot, machine building, medical and automotive industries.

Vertical - Tire Building Industry: with decades of experience, TKH has developed and refined the manufacturing technology needed to produce superior tires for passenger cars and trucks. TKH designs, produces, delivers and installs innovative tire-building systems that make it possible to build tires with specific characteristics.

This is a summary of the Annual Report 2016. The full Annual Report is available in Dutch and English and can be downloaded from the website of TKH: www.tkhgroup.com.

The Annual Report in English is a translation of the official Dutch version. In the event of differences and/or inconsistencies between the English version of the Annual Report 2016 and the official Dutch Annual Report 2016, the latter will take precedence.

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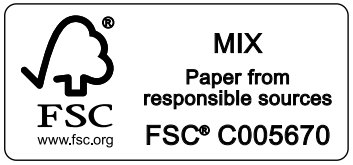

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