

Press release - TKH Group N.V. (TKH)
Q4 and full year results 2017

Results and strategic progress provide solid base for profit growth

Highlights Q4

- Increase in turnover of 6.6% to € 386.1 million, organic increase of 5.5%.
- Turnover rise in all three business segments – Telecom Solutions +18.0% on the back of strong demand for optical fibre.
- Decline in EBITA before one-off expenses of 6.5% – primarily due to continued high start-up costs in Building Solutions.
- ROS at a high level of 11.2%.
- Decline of 7.0% in net profit before amortization and one-off income and expenses.
- Previously announced program for further focus on core activities and improvement of result, leads to one-off expense of € 4.6 million in Q4.

Highlights 2017

- Increase in turnover of 10.7% to € 1,484.5 million, organic growth of 8.8%, with above average growth of 12.1% in vertical growth markets.
- High share of innovations in turnover of 22.2%.
- Increase of 2.9% in EBITA before one-off expenses, despite high start-up costs and increase in capacity for planned growth in the vertical growth markets.
- R&D spending up 19.1% at € 59.9 million in line with the objective to further increase the company's technological leadership.
- One-off expense of € 6.3 million in the full-year 2017 for increase focus on core activities and efficiency improvement program.
- Increase of 2.4% in net profit before amortization and one-off income and expenses attributable to shareholders to € 96.6 million in line with previously communicated bandwidth of € 92 - € 97 million.
- Dividend proposal: € 1.20 per (depository receipt for an) ordinary share (2016: € 1.10).

Outlook

- Investment year 2017 provides a solid base for realization of growth in profit from 2018 onwards.
- Based on solid progress in realization of strategy, TKH has raised its medium-term targets: ROS from 11-12% to 12-13% and ROCE from 20-22% to 21-23%.

Fourth quarter results

(in € million, unless otherwise stated)	Q4 2017	Q4 2016	Change in %
Turnover	386.1	362.3	+ 6.6%
EBITA before one-off expenses ²⁾	43.2	46.2	- 6.5%
EBITA	38.6	46.2	- 16.5%
Net profit before amortization and one-off income and expenses attributable to shareholders ^{1,3)}	28.7	30.8	-7.0%
ROS	11.2%	12.8%	

Full year results

(in € million, unless otherwise stated)	2017	2016	Change in %
Turnover	1,484.5	1,341.0	+ 10.7%
EBITA before one-off expenses ²⁾	150.8	146.5	+ 2.9%
EBITA	144.5	146.5	- 1.4%
Net profit before amortization and one-off income and expenses attributable to shareholders ^{1,3)}	96.6	94.4	+ 2.4%
Net profit	88.6	87.3	+ 1.4%
Net earnings before amortization and one-off income and expenses, attributable to shareholders per ordinary share (in €) ^{1,3)}	2.30	2.25	+ 2.3%
Net earnings per ordinary share attributable to shareholders (in €)	2.08	2.04	+ 1.8%
ROS	10.2%	10.9%	
ROCE	19.8%	20.1%	
Dividend proposal (in €)	1.20	1.10	

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

2) The one-off expenses in 2017 were restructuring costs of € 6.3 million (Q4 2017: € 4.6 million).

3) The one-off income and expenses in 2017 relate to restructuring costs of € 6.3 million, impairments of € 1.8 million (2016: € 0.8 million), release of financial liabilities for a squeeze-out, earn-out and put-options for a total of € 3.8 million (2016: 0.6 million), book profit of € 5.8 million on the sale of the 5.06% interest in Nedap and a tax benefit of € 0.2 million (2016: € 3.0 million benefit). In Q4, this was on balance an expense of € 6.2 million (Q4 2016: € 3.2 million income).

Alexander van der Lof, CEO of technology company TKH: *"In 2017, TKH made significant investments in the roll-out of innovation projects in the seven vertical growth markets. With this, we have laid solid foundations for growth in turnover and profit from 2018 onwards. The vertical growth markets realized a high organic growth of 11.3% in the year under review. However, a large proportion of the innovation projects in these vertical growth markets, which involve disruptive technology, are still in the roll-out stages. For this we incurred high start-up costs and additional costs for the build-up of substantial additional production capacity. This put pressure on the profitability of Building Solutions, but we are positive about the return potential in this business segment.*

Our strategic progress is on schedule, which means we can now raise our medium-term targets for returns, the ROS and ROCE. The sizeable innovation projects will now generate additional returns, which gives us a great deal of confidence in the outlook for the years ahead. We have therefore decided to raise the bandwidth for our turnover growth targets specifically for the vertical growth markets Machine Vision and Fiber Optic Networks."

Progress in realization of objectives and execution of strategy

In the year under review, TKH continued to intensify its focus on core technologies and the seven vertical growth markets.

TKH has defined building blocks based on action plans to realize growth. In 2017, the vertical growth markets recorded above-average turnover growth, while some building blocks are still in the development and roll-out stages and are making only a limited contribution to turnover growth. Growth was driven by the high contribution of 22.2% from innovations in TKH's turnover (2016: 19.0%). TKH aims for 15% of turnover from innovations that were introduced in the market over the preceding two years.

In 2017, TKH reorganized less profitable activities to reduce operating costs and increase focus. In addition, activities were terminated that offer no added value for our proposition in the vertical growth markets because they are a poor fit with our core technologies.

In the year under review, TKH achieved some significant milestones from a strategic perspective. We booked a further increase in market share among the top-5 tire manufacturers, continued to increase our market share in consumer electronics with machine vision technology, rolled-out the first projects for the airfield ground lighting (AGL) portfolio based on the disruptive CEDD technology and started up the subsea production capacity. These building blocks have great potential. We have also strengthened the R&D, operational and commercial organizations so we can respond effectively to the expected market demand. We will also continue to invest in the organizations for Machine Vision, Tunnel & Infra and Tire Building in particular on the basis of the growth opportunities we see. However, these investments will be lower than in recent years. We have made preparations to expand production capacity for optical fiber networks and high-grade industrial cable systems in 2018, based on concrete opportunities we have seen in these markets.

Our positions in the vertical growth markets are developing well and we expect strong market growth in the coming years. With this in mind, we have made upward adjustments to the bandwidth of our turnover growth targets for the vertical growth markets Machine Vision and Fiber Optic Networks. For Machine Vision, we have raised the bandwidth to € 250 to € 300 million (turnover 2017: € 127 million) and for Fiber Optic Networks we have increased the bandwidth to € 175 million to € 200 million (turnover 2017: € 127 million). In Machine Vision, we created a breakthrough in the market for consumer electronics with the successful market introductions of our innovations in the field of 3D camera and sensor technology. We are also confident about the potential for our embedded 2D camera technology on the basis of the feedback we received on the introduction. The number of applications that use 2D and 3D-vision technology for quality inspections and production process monitoring continues to increase rapidly, which has resulted in greater than expected growth in market demand. For Fiber Optic Networks, we noted a continued increase in global market demand, with accelerated growth in Europe. Our successful positioning and strong market positions in the European market means we will be able to benefit from this increase in demand in the coming years.

On the basis of the implementation of our growth plans, in combination with the defined building blocks for growth and related roll-out of new technology, we expect that growth in turnover and profit will further materialize. This provides a solid foundation for our expectation that the turnover in the seven vertical growth markets can increase by € 300 to € 500 million in the coming 3-5 years.

We have raised our medium-term ROS and ROCE targets from 11-12% and 20-22% respectively to 12-13% and 21-23% on the back of the solid strategic progress and the related outlook.

Financial developments fourth quarter

Turnover in the fourth quarter of 2017 rose by € 23.8 million (6.6%) to € 386.1 million (Q4 2016: € 362.3 million). Higher raw materials prices led to a 1.3% increase in turnover, while acquisitions made a contribution of 0.7%. The on average weaker foreign currencies against the euro had a negative impact of 0.9% on turnover. On balance, organic turnover growth was 5.5% compared to the fourth quarter of 2016. All segments recorded a rise in turnover in the fourth quarter. Telecom, Building Solutions and Industrial Solutions booked organic growth of 18.5%, 2.5% and 4.9% respectively.

The operating result before amortization of intangible assets and one-off income and expenses (EBITA) declined by 6.5% to € 43.2 million in the fourth quarter of 2017 (Q4 2016: € 46.2 million). The EBITA at Telecom Solutions was up compared to the year-earlier period, while EBITA in Building Solutions and Industrial Solutions declined. Although operating expenses as a percentage of turnover was down, the fourth quarter still saw high

start-up costs for new technology, the expansion of production capacity and market positioning in the vertical growth markets, including Marine & Offshore, Tunnel & Infra and Parking. The ROS for the TKH group was 11.2% in the fourth quarter of 2017 (Q4 2016: 12.8%). Excluding the aforementioned start-up costs, ROS would have been in line with the fourth quarter of 2016.

In the fourth quarter, we recognized € 4.6 million in one-off expenses due to the termination of several distribution activities of commodity products that are not a good fit with our core activities, and the improvement of the returns of a number of activities, especially in Building Solutions.

The lower operating result reduced the net profit before amortization and one-off income and expenses attributable to shareholders by 7.0% to € 28.7 million (Q4 2016: € 30.8 million).

Financial developments full year 2017

Turnover in 2017 was up € 143.5 million (10.7%) at € 1,484.5 million (2016: € 1,341.0 million). Organic turnover growth was 8.8%. Acquisitions contributed 0.6% to turnover. Higher raw materials prices had a positive impact of 1.7% on turnover. The on average weaker foreign currencies against the euro had a negative impact of 0.4% on turnover.

Telecom Solutions recorded organic turnover growth of 14.1% in 2017. At Building Solutions, organic turnover growth was 7.9% in 2017 and amounted to 8.3% at Industrial Solutions. Industrial Solutions' contribution to total turnover declined to 44.3%, from 44.5%, while the contribution from Building Solutions dropped to 42.8% from 42.9%. Telecom Solutions' contribution increased to 12.9%, from 12.6%.

The gross margin declined to 45.1% in 2017, from 47.1% in 2016. This was due to higher raw materials prices, changes to the product mix, use of materials for the start-up of the subsea production capacity and one-off costs related to the upgrading of technology for parking guidance systems. Operating expenses were 7.0% higher than in 2016. This increase was largely due to higher production levels. Expenses also increased due to start-up costs for the subsea production capacity, the launch of a new production plant in Poland for tire building systems, the expansion of production capacity in Canada and Germany for Machine Vision and the expansion of the R&D and commercial organizations. These investments, especially those at Building Solutions, were in preparation for the targeted growth in the vertical growth markets. R&D expenses increased to € 59.9 million (2016: € 50.3 million), with around 51% of this amount capitalized as development costs. Acquisitions resulted in an increase of 1.0% in operating expenses. Operating expenses as a percentage of turnover declined to 35.0% in 2017, from 36.1% in 2016. Depreciation amounted to € 24.8 million in 2017, which was € 2.7 million above the level of 2016, as a result of the increase in investments in recent years.

The operating result before amortization of intangible assets and one-off income and expenses (EBITA) was € 150.8 million in 2017, up 2.9% from the € 146.5 million recorded the previous year. EBITA at Telecom Solutions and Industrial Solutions was up 44.8% and 12.4% respectively, while EBITA at Building Solutions declined by 17.6%. The ROS fell to 10.2% (2016: 10.9%).

The program for further focus on core activities and improvement of results, leads to a total one-off costs of € 6.3 million for the full year 2017.

Amortization costs came in € 3.9 million higher at € 36.5 million, primarily due to higher R&D investments. In addition, TKH recognized impairments of on balance € 1.8 million.

Financial expenses fell by € 0.7 million to € 6.9 million in 2017 on the back of improved interest rates as a result of the refinancing agreement signed in January 2017. However, this benefit was negated by negative exchange rate effects of € 1.1 million. The result from other participations improved by € 0.4 million. In addition, a net book profit of € 5.8 million was realized on the sale of our 5.06% stake in Nedap.

At the end of July 2017, TKH agreed a settlement in the squeeze-out procedure involving the former minority shareholders of Augusta Technologie AG. This settlement was lower than expected and therefore resulted in one-off untaxed income of € 2.2 million, due to the partial release of the financial liability. In addition, last year also saw a release of earn-out liabilities. On balance, this resulted in one-off income of € 3.8 million.

The tax rate for 2017 was 19.0% (2016: 18.4%). The release of the squeeze-out and earn-out liabilities and the result from the sale of the interest in Nedap are tax exempt and therefore reduced the effective tax rate. Fiscal R&D facilities, such as the Dutch innovation box facility, also had a downward impact on the total tax rate. However, the tax reform in the US resulted in an increase in taxes of €1.8 million due to a lower valuation of deferred tax assets.

Net profit before amortization and one-off income and expenses attributable to shareholders increased by 2.4% to € 96.6 million in 2017 (2016: € 94.4 million). The net profit for 2017 was € 88.6 million (2016: € 87.3 million). Earnings per share before amortization and one-off income and expenses came in at € 2.30 (2016: € 2.25). The ordinary earnings per share amounted to € 2.08 (2016: € 2.04).

The cash flow from operating activities was € 159.6 million in 2017 (2016: € 104.1 million). This increase was largely due to a decline in working capital, compared to an increase in 2016. At year-end 2017, working capital as a percentage of turnover stood at 11.4% (2016: 13.4%). Net investments in tangible fixed assets came in at € 40.9 million in 2017 (2016: € 45.5 million). A major part of this was related to investments in production plants, including the expansion of capacity for the sub-segments vision & security systems, building connectivity systems and manufacturing systems. In addition, € 35.1 million was invested in 2017 in intangible fixed assets, mainly R&D, patents, licenses and software (2016: € 28.9 million).

Solvency rose to 46.9% in 2017 (2016: 46.7%). The net bank debt, calculated in accordance with the financial covenants, had fallen to € 157.8 million at year-end 2017, a drop of € 8.3 million compared to year-end 2016. The net debt/EBITDA ratio came in at 0.9, which means TKH was operating well within the financial ratio agreed with its banks.

TKH had 5,900 employees (FTEs) at year-end 2017 (2016: 5,509). The company also had 522 (FTEs) temporary employees (2016: 439 FTEs).

Developments per solutions segment

Telecom 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 completely worry-free systems for its clients, thanks to the system guarantees it provides. Around 40% of the portfolio consists of hub-to-hub optical fiber and copper cable systems. The remaining 60%, consisting of components and systems in the field of connectivity and peripherals, is deployed primarily in network hubs.

Key figures

(in € millions unless otherwise stated)	2017	2016	Change in %
Turnover	191.5	168.5	+13.6%
EBITA	25.9	17.9	+44.8%
ROS	13.5%	10.6%	

Turnover in the Telecom Solutions segment was 13.6% higher at € 191.5 million. Organic turnover growth was 14.1%, while exchange rates had a negative impact of 0.5% on turnover. The growth was realized in the sub-segment fibre networks systems.

EBITA was up € 8.0 million on the back of higher capacity utilization and efficiency improvements in production. Price levels also improved. The ROS improved to 13.5% from 10.6%.

Fibre network systems - optical fibre, optical fibre cables, connectivity systems and components, active peripherals – turnover share 8.3%

This sub-segment saw organic turnover growth of 24.9% on the back of unchanged high demand for optical fibre cables. Turnover in optical fibre network systems increased primarily in Germany, Poland, France and the Nordic countries. In France, we strengthened our sales organization and won several orders for a portfolio developed specifically for the French market. This translated into an increase in our market share. Strong worldwide demand for optical fibre, the growth was realized at an improved pricing level. The high level of capacity utilization and efficiency improvements realized in production had a positive impact on the result.

Indoor telecom & copper networks - home networking-systems, broadband connectivity, IPTV software solutions, copper cable, connectivity systems and components, active peripherals – turnover share 4.6%

This sub-segment recorded an organic turnover decline of 1.1%, largely as a result of a continued drop in investments in passive components for copper cable networks and a continued shift in the priority for investments towards optical fibre networks. The margin improved on the back of an improved product mix.

Building Solutions

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

Key figures

(in € million unless otherwise stated)	2017	2016	Change in %
Turnover	635.5	574.9	+ 10.5%
EBITA before one-off expenses ¹⁾	51.4	62.4	- 17.6%
ROS	8.1%	10.9%	

¹⁾ The one-off expenses in 2017 were restructuring costs of € 6.1 million.

Turnover at the Building Solutions segment was up 10.5% at € 635.5 million. Organic growth came in at 7.9%. Acquisitions contributed 1.4% to this growth. Currency exchange rates had a negative impact of 0.9% on turnover. Higher raw materials prices had an impact of 2.1% on turnover.

EBITA before one-off expenses declined by 17.6% to € 51.4 million. The operating result was reduced by high start-up costs related to the new subsea production capacity in Lochem and the development of the airfield ground lighting-portfolio (CEDD), which generated only limited turnover. Furthermore, turnover growth in Parking lagged behind, while costs were higher in the segment. The ROS was 8.1% in 2017, down from 10.9% in 2016.

Vision & security systems - vision technology based on 2D and 3D camera sensor technology and 3D laser technology, systems for CCTV, video/audio analysis and detection, intercom, access control and registration, central control room integration, healthcare systems – turnover share 24.1%

This sub-segment recorded organic turnover growth of 0.7%. TKH recorded strong growth in the vertical growth market Machine Vision in the first half of the year, while growth in the second half of the year leveled off somewhat. The growth of Machine Vision was driven in particular by a breakthrough among producers of consumer electronics. Our market share was still limited in 2017, but the roll-out of distinctive 3D technology has resulted in a strong growth of our position in the consumer electronics market and this offers positive perspectives for growth in the coming years. Mid-2017 saw the successful launch of our embedded 2D camera technology. The large-scale roll-out of this new generation of technology is scheduled for the third quarter of 2018.

At Parking, the EBITA decreased due to a delay in order intake and delivery of parking guidance systems, while the organization was already built up, anticipating further growth. In addition, there were mainly in the first half-year one-off expenses for the upgrading of technology for some installed parking guidance systems.

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 18.7%

This sub-segment recorded organic turnover growth of 19.2%. The growth came from a variety of segments. In the construction and infra sector, TKH was able to benefit from an increase in market volume. The demand for data cable systems also increased. In the vertical growth market Tunnel & Infra, the new CEDD technology for airfield ground lighting ('AGL') was rolled out and contributed to the growth in turnover. The innovative AGL system integrates various TKH technologies. Airports are showing a great interest in this disruptive technology. We have strengthened the operational organization and R&D for the airport market specifically to meet the expected demand.

In Marine & Offshore, growth was realized on the back of increasing demand for connectivity systems. However, in this vertical growth market we also recorded high start-up costs for the new production facility for subsea cable systems, which only generated limited turnover. The strongly innovative nature of a large proportion of the production equipment resulted in a clear learning curve, which was largely completed in the fourth quarter and involved high levels of expenditure.

Industrial Solutions

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 reliability of production systems gives TKH the differentiating potential it needs to respond to the increasing desire to outsource the construction of production systems or modules in a number of specialized industrial sectors, such as tire manufacturing, robotics, medical and machine building industries.

Key figures

(in € millions unless otherwise)	2017	2016	Change in %
Turnover	657.5	597.6	+10.0%
EBITA before one-off income and expenses ¹⁾	89.4	79.5	+12.4%
ROS	13.6%	13.3%	

1) The one-off expenses in 2017 were restructuring costs of € 0.2 million.

Turnover in the Industrial Solutions segment increased by 10.0% to € 657.5 million. Currency exchange rates had a negative impact of 0.1% on turnover. The on average higher raw materials prices had a positive impact of 1.8%. The organic turnover growth came in at 8.3%. The growth in turnover was realized in both sub-segments.

Full-year EBITA increased by 12.4% as a result of higher turnover and production capacity utilization. The ROS improved to 13.6% (2016: 13.3%).

Connectivity systems - specialty cable systems and modules for the medical, robot, automotive and machine building industries – turnover share 17.9%

This sub-segment saw organic turnover growth of 3.8%. The increase in turnover came mainly from the medical industry and robot industry. TKH has decided to expand the production capacity for high-grade industrial cable systems in 2018 to respond to the growing demand for robot systems. We invest continuously in R&D and this enables us to respond optimally to the trend of miniaturization and the extension of the life of cable systems for advanced production systems.

Manufacturing systems - advanced manufacturing systems for the production of car and truck tires, can washers, test equipment, product handling systems for the medical industry, machine operating systems – turnover share 26.4%

This sub-segment booked organic turnover growth of 11.4% due to higher order intake in the preceding quarters, which raised engineering activity and production to a higher level. This resulted in improvements in EBITA and ROS. Order intake was € 346 million in the full-year 2017 (2016: € 281 million). A number of expected contracts were shifted over the year-end. The order intake in 2017 was driven by both the continued recovery in order intake from China and growth in the market share among the top-five tire manufacturers. The share of engineering increased significantly because we sold a relatively high number of newly developed machines, including the MILEXX, and due to client-specific developments for the top-five tire manufacturers. This had a substantial impact in 2017 on the throughput time of the orders, which meant higher order intake did not immediately result in higher production value and turnover. The order book was better filled at year-end 2017 compared to a year-earlier because of the high order intake in recent quarters. The focus and expansion of the service organization and services also contributed to the turnover growth.

General meeting of shareholders

Nomination for appointment to the Supervisory Board

During the General Meeting of Shareholders to be held on 3 May 2018, Mrs. M.E. van Lier Lels and Mr. A. De Proft will step down in line with the prevailing retirement schedule. Mrs. Van Lier Lels is not eligible for reappointment due to the expiration of the maximum term of appointment to the board. The 2017 General Meeting of Shareholders had already arranged the succession of Mrs. Van Lier Lels via the appointment of an extra member to the Supervisory Board. Mr. De Proft is eligible for reappointment. At the General Meeting of Shareholders, the Supervisory Board will nominate Mr. De Proft for reappointment for a subsequent term of four years in the position of chairman of the Supervisory Board.

Proposed changes to the Executive Board

The Supervisory Board also announces the intention to nominate Mr. H.J. (Harm) Voortman MSc (1966) for appointment as per 3 May 2018 as member of the Executive Board of TKH Group NV by the General Meeting. Currently, Mr Voortman is responsible within TKH Group for VMI and is a member of the Management Board of TKH.

Besides, Mr A.E. (Arne) Dehn, currently member of the Executive Board, has announced that he will not consider another term as from the General Meeting 2019, and will pursue a new role outside TKH Group. In mutual consultation, it has been decided that Mr Dehn will resign from the Executive Board at the forthcoming General Meeting.

Dividend proposal

At the Annual General Meeting, TKH will propose the payment of a dividend of € 1.20 per (depository receipt for a) share (2016: € 1.10). Based on the number of outstanding shares at year-end 2017, this amounts to a pay-out ratio of 52.2% of the net profit before amortization and one-off income and expenses attributable to shareholders and 57.0% 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 14 May 2018.

Motion to amend the articles of association

A motion to amend the articles of association will also be submitted to the General Meeting of Shareholders, such to bring the articles of association in line with current laws and regulations, also in view of the revised Corporate Governance Code.

Outlook

Barring unforeseen circumstances, we expect the following developments for each business segment in 2018:

Telecom Solutions

We expect continued growth in the investments in optical fibre systems in Europe and China. Our investments in market penetration in Europe in recent years mean the growth potential for TKH will be primarily focused in Europe. The capacity expansions will have only a limited effect in 2018 and we expect to see the full impact of these expansions from 2019 onwards. We expect continued growth in this segment in 2018.

Building Solutions

In the sub-segment connectivity systems, TKH will be able to realize continued growth in the market segment Marine & Offshore due to the contribution from the subsea cable system activities. The roll-out of the CEDD technology for airfield ground lighting is on schedule and we expect to realize additional turnover on this front too. Despite the fact that 2018 will still see start-up costs, we expect costs to normalize further. In the sub-segment security vision systems, we are seeing reluctance to invest by consumer electronics manufacturers in the vertical growth market Machine Vision. TKH still expects to be able to continue to expand its market share with advanced technology and realize further growth. We expect an improvement in turnover and result in the Parking segment. The restructuring implemented in 2017 will also contribute to an improvement in results.

Industrial Solutions

The investments in the industrial sector, linked with robotization and automation, are increasing and we therefore expect to be able to realize growth in the sub-segment industrial connectivity systems. Due to the available capacity, this growth will be primarily seen in the second half of the year.

The order book in the sub-segment manufacturing systems was better filled at year-end 2017 than a year earlier. Increased order intake in 2017 combined with new machines and the increased penetration among the top-five tire manufacturers will require a relatively high level of engineering activity, but also offer perspective for growth. The expansion of our production capacity we realized last year, combined with a normalization of the share of engineering activities, will result in higher production levels and consequently an increase in the result.

As usual, TKH will give a concrete outlook for the full-year 2018 profit at the presentation of its interim results in August 2018.

Haaksbergen, 6 March 2018

Executive Board

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The analyst meeting, which takes place on 6 March at 13:00, can also be followed via video webcast (www.tkhgroup.com).

Financial calendar

2 May 2018	Trading Update Q1 2018
3 May 2018	General Meeting of Shareholders
14 May 2018	Dividend payable
14 August 2018	Publication interim results 2018
1 November 2018	Trading Update Q3 2018

The TKH annual report for 2017 will be published in digital format on 21 March 2018 on the TKH website (www.tkhgroup.com).



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, mission critical communication, connectivity and smart manufacturing - are linked into total systems and solutions in our three Solutions segments. Within these business segments there is a strong focus on seven vertical growth markets - fiber optic networks, parking, care, tunnel & infrastructure, marine & offshore, machine vision and tire building industry - where the core technologies are positioned as one-stop-shop for our customers. TKH strives for far-reaching synergy and co-operation between its 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 5,900 people, TKH achieved a turnover of € 1.5 billion in 2017.

Consolidated balance sheet

In Thousands of euros

Assets

Non-current assets

	31-12-2017	31-12-2016
Intangible non-current assets	392,152	395,521
Tangible non-current assets	229,212	213,103
Investment property	251	1,491
Financial non-current assets	13,526	25,170
Deferred tax assets	21,838	20,768
Non-current assets	656,979	656,053

Current assets

Inventories	233,626	206,949
Receivables	217,377	192,967
Amounts due from customers under construction contracts	86,803	100,568
Current income tax	2,805	1,433
Cash and cash equivalents ¹⁾	87,719	88,496
Total current assets	628,330	590,413

Total assets

1,285,309 **1,246,466**

Equity and liabilities

Group equity

Shareholders' equity	594,072	574,000
Non-controlling interests	8,440	8,520
Total group equity	602,512	582,520

Non-current liabilities

Non-current liabilities	187,335	213,913
Deferred tax liabilities	50,481	52,660
Retirement benefit obligation	8,172	7,957
Financial liabilities	2,890	9,655
Provisions	4,955	5,914
Total non-current liabilities	253,833	290,099

Current liabilities

Borrowings ¹⁾	57,350	51,992
Trade payables and other payables	286,348	248,172
Amounts due to customers from construction contracts	60,267	45,794
Current income tax liabilities	5,762	7,370
Financial liabilities	11,781	13,217
Provisions	7,456	7,302
Total current liabilities	428,964	373,847

Total equity and liabilities

1,285,309 **1,246,466**

¹⁾ Including € 42.0 million (2016: € 29.8 million) cash and cash equivalents that are part of a cash pool.

Consolidated profit and loss account

In Thousands of euros

	<u>2017</u>	<u>2016</u>
Net turnover	1,479,648	1,338,516
Other operating income	4,808	2,468
Total turnover	1,484,456	1,340,984
Changes in inventory of finished goods and work in progress	-13,686	-2,094
Raw materials, consumables, trade products and subcontracted work	828,466	711,822
Personnel expenses	353,791	331,426
Other operating expenses	146,637	131,213
Depreciation	24,774	22,109
Amortization	36,466	32,568
Impairments ¹⁾	1,754	822
Total operating expenses	1,378,202	1,227,866
Operating result	106,254	113,118
Financial income	1,459	1,814
Financial expenses	-8,326	-9,344
Exchange differences	-1,190	-125
Share in result of associates	941	500
Result from available-for-sale financial assets	6,311	433
Change in value of financial liabilities for squeeze-out, earn-out and put options of shareholders of non-controlling interests ¹⁾	3,847	613
Result before tax	109,296	107,009
Tax on profit	20,744	19,702
Net result	88,552	87,307
Attributable to:		
Shareholders of the company	87,324	85,707
Non controlling interests	1,228	1,600
	88,552	87,307
Earnings per share attributable to shareholders		
Weighted average number of shares (x 1,000)	42,057	42,004
Weighted average number of shares for the purpose of diluted earnings per share (x 1,000)	42,397	42,214
Ordinary earnings per share (in €)	2.08	2.04
Diluted earnings per share (in €)	2.06	2.03
Ordinary earnings per share before amortization and one-off income and expenses (in €)	2.30	2.25
Ordinary earnings per share before amortization (in €) ²⁾	2.34	2.31

¹⁾ The change in value of the financial liabilities for earn-out, squeeze-out and put options for non-controlling interests was presented in the 2016 financial statements as impairment. This item has been reclassified and is now presented separately, for which the comparative figures have been adjusted.

²⁾ Non-IFRS compulsory disclosure.

Consolidated statement of comprehensive income

In Thousands of euros

	<u>2017</u>	<u>2016</u>
Net result	88,552	87,307
Items that may be reclassified subsequently to profit and loss (net of tax)		
Currency translation differences	-11,897	835
Currency translation differences in other associates	-491	-159
Effective part of changes in fair value of cash flow hedges (after tax)	5,034	1,044
Revaluation of available-for-sale financial assets	795	880
Reclassification to profit & loss account of available-for-sale financial assets due to disposal	-5,837	
	<u>-12,396</u>	2,600
Items that will not be reclassified subsequently to profit and loss (net of tax)		
Actuarial gains/(losses)	<u>22</u>	<u>-560</u>
	<u>22</u>	<u>-560</u>
Other comprehensive income (net of tax)	<u>-12,374</u>	<u>2,040</u>
Comprehensive income for the period (net of tax)	<u>76,178</u>	<u>89,347</u>
Attributable to:		
Shareholders of the company	74,988	87,754
Non-controlling interests	<u>1,190</u>	<u>1,593</u>
Total comprehensive income for the period (net of tax)	<u>76,178</u>	<u>89,347</u>

Consolidated statement of changes in group equity

In Thousands of euros

	2017	2016
Balance at 1 January	582,520	529,417
Net result	88,552	87,307
Reclassification to profit & loss account of available-for-sale financial assets due to disposal	-5,837	
Total other comprehensive income	-6,537	2,040
Total comprehensive income for the period (net of tax)	76,178	89,347
Capital contribution		20
Dividends	-46,237	-32,038
Dividends to shareholders of non-controlling interests	-1,811	-2,107
Acquisitions of non-controlling interests	2	-142
Reversal of revaluation		-453
Sale of available-for-sale financial assets	2,315	1,989
Share and option schemes (IFRS)	-17,496	-8,277
Purchased shares for share and option schemes	7,041	4,764
Balance as at 31 December	602,512	582,520

Consolidated cash flow statement

In Thousands of euros

	2017	2016
Cash flow from operating activities		
Operating result ¹⁾	106,254	113,118
Badwill not resulting in an operational cash flow		-645
Depreciation, amortization and impairment	62,087	56,729
Share and option schemes not resulting in a cash flow	2,315	1,989
Result on disposals	292	-710
Changes in provisions	543	-2,141
Changes in working capital	24,769	-27,864
Cash flow from operations	196,260	140,476
Interest received	1,461	1,814
Interest paid	-8,091	-8,607
Income tax paid	-30,044	-29,595
Net cash flow from operating activities (A)	159,586	104,088
Cash flow from investing activities		
Capital contribution		20
Dividend received from non-consolidated associates	634	578
Loans	-483	-585
Purchases of tangible non-current assets	-44,118	-47,393
Disposals of tangible non-current assets	1,000	2,066
Net cash flow on investments and divestments of investment property	1,240	
Divestments of subsidiaries		2,663
Divestment of associates		411
Divestment available for sale financial asset	12,097	
Acquisition of subsidiaries less cash and cash equivalents acquired	-5,821	-761
Acquisition of associates	-50	
Investment in intangible non-current assets	-35,064	-28,926
Divestment of intangible non-current assets	226	141
Net cash flow from investing activities (B)	-70,339	-71,786
Cash flow from financing activities		
Dividends paid	-48,048	-34,145
Settlement of financial liabilities regarding put options of non-controlling interests, earn-out and squeeze out	-4,664	-745
Acquisition of non-controlling interests	316	-142
Purchased shares for share and option schemes	-17,496	-8,277
Sold shares for share and option schemes	7,041	4,764
Repayment of long-term debts	-27,158	-12,042
Proceeds from other long term debts	380	2,205
Change in borrowings ²⁾	-11,537	10,437
Net cash flow from financing activities (C)	-101,166	-37,945
Net increase in cash and cash equivalents (A+B+C)	-11,919	-5,643
Exchange differences ²⁾	-1,072	-354
Cash and cash equivalents	-12,991	-5,997
Cash and cash equivalents at 1 January	58,704	64,701
Cash and cash equivalents at 31 December	45,713	58,704

¹⁾ The change in value of financial liabilities for earn-out, squeeze-out and put options of non-controlling interests has been reclassified in the profit & loss account. The operating result has been changed through this reclassification. This reclassification has no impact on the cash flow from operations.

²⁾ The exchange difference on borrowings has been reclassified to the exchange differences. The comparative figures have been adjusted for this.

Notes to the financial statements

1. Accounting principles for financial reporting

General

These financial figures have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and are prepared using the principles, which are applied in the financial statements for the year ended 31 December 2017. Further disclosures and description of the accounting principles as required under IFRS are not included in the financial figures. For a full understanding, this press release should be read in conjunction with the financial statements for the Group.

2. Segmented information

	Telecom Solutions		Building Solutions		Industrial Solutions		Unallocated		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
First half year										
Net turnover	<u>94,213</u>	84,101	<u>311,971</u>	273,963	<u>318,996</u>	292,064			<u>725,180</u>	650,128
EBITA ¹⁾ excl. one-off expenses	11,177	9,230	26,744	28,918	40,867	32,809	-7,891	-6,190	70,897	64,767
One-off expenses										
Amortization	-517	-402	-13,809	-12,196	-3,870	-3,319	-30	-29	-18,226	-15,946
Impairments	114		-97	-343	-139				-122	-343
Operating Result	<u>10,774</u>	8,828	<u>12,838</u>	16,379	<u>36,858</u>	29,490	<u>-7,921</u>	-6,219	<u>52,549</u>	48,478
Second half year										
Net turnover	<u>97,259</u>	84,431	<u>323,554</u>	300,940	<u>338,463</u>	305,485			<u>759,276</u>	690,856
EBITA ¹⁾ excl. one-off expenses	14,711	8,647	24,667	33,488	48,570	46,734	-8,067	-7,128	79,881	81,741
One-off expenses			-6,124		-180				-6,304	
Amortization	-662	-427	-13,290	-12,427	-4,288	-3,772		4	-18,240	-16,622
Impairments	-3	77	-1,315	-1,565	-314	-623		1,632	-1,632	-479
Operating Result	<u>14,046</u>	8,297	<u>3,938</u>	19,496	<u>43,788</u>	42,339	<u>-8,067</u>	-5,492	<u>53,705</u>	64,640
Total										
Net turnover	<u>191,472</u>	168,532	<u>635,525</u>	574,903	<u>657,459</u>	597,549			<u>1,484,456</u>	1,340,984
EBITA ¹⁾ excl. one-off expenses	25,888	17,877	51,411	62,406	89,437	79,543	-15,958	-13,318	150,778	146,508
One-off expenses			-6,124		-180				-6,304	
Amortization	-1,179	-829	-27,099	-24,623	-8,158	-7,091	-30	-25	-36,466	-32,568
Impairments	111	77	-1,412	-1,908	-453	-623		1,632	-1,754	-822
Operating Result	<u>24,820</u>	17,125	<u>16,776</u>	35,875	<u>80,646</u>	71,829	<u>-15,988</u>	-11,711	<u>106,254</u>	113,118

¹⁾ EBITA: Operating result plus amortization and impairment of immaterial fixed assets

3. Overview of alternative performance indicators

in Thousands of euros

	2017	2016
Net result	88,552	87,307
Less: Non-controlling interests	-1,228	-1,600
Attributable to shareholders of the company	87,324	85,707
Net result	88,552	87,307
Amortization of acquisition-related intangible assets	15,246	15,723
Taxes on amortization	-4,130	-4,267
Net profit before amortization	99,668	98,763
Less: Non-controlling interests	-1,228	-1,600
Net profit before amortization attributable to shareholders of the company	98,440	97,163
Net profit before amortization	99,668	98,763
Restructuring costs	6,304	
One-off income due to sale of Nedap shares	-5,837	
Impairment	1,754	822
Change in value of financial liabilities for squeeze-out, earn-out and put options of shareholders of non-controlling interests	-3,847	-613
Tax effect on one-off income and expenses	-2,015	-367
One-off tax charge/(benefit)	1,817	-2,650
Profit before amortization and one-off expenses	97,844	95,955
Less: Non-controlling interests	-1,228	-1,600
Net profit before amortization and one-off income and expenses attributable to the shareholders of the company	96,616	94,355

Other definitions applied:

- Capital Employed: group equity plus non-current liabilities plus current borrowings minus cash and cash equivalents.
- EBITA: result before financial income and expenses, taxes, impairments and amortization.
- EBITDA: result before financial income and expenses, taxes, impairments, depreciation and amortization
- ROCE (Return on Capital Employed): EBITA over the last twelve months divided through Capital Employed at start date plus Capital Employed at end date divided by two.
- ROS (Return On Sales): EBITA divided by the total turnover as a percentage
- Debt leverage ratio (net debt/EBITDA): non-current liabilities plus current borrowings minus cash and cash equivalents divided by EBITDA.

4. IFRS 9 and 15

As of 1 January 2018, the standards IFRS 9 Financial instruments and IFRS 15 Revenues from Contracts with Customers will be applicable. TKH will apply IFRS 9 from January 1, 2018, without adjusting the comparative figures. IFRS 15 is expected to be applied retroactively, with the comparative figures for 2017 being adjusted. On the basis of the analyzes carried out, TKH expects that the impact of both IFRS 9 and IFRS 15 on

equity as at 1 January 2017 and 31 December 2017, as well as on the result for 2017, will not be material.

5. Annual report

The consolidated balance sheet, consolidated profit and loss account, consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in group equity and consolidated cash flow statement, as included in this press release, are based on the annual accounts prepared of 31 December 2017, which have not yet been published in compliance with legal requirements. These documents will be published ultimately at 21 March 2018. The annual accounts will be submitted to the General Meeting of Shareholders on 3 May 2018 for approval.

In accordance with Section 2:293 and 395 of the Dutch Civil Code, we report that our auditor, Ernst & Young Accountants LLP has issued an unqualified auditor's report on the annual accounts dated 5 March 2018. For the understanding required to make a sound judgment as to the financial position and results of TKH Group N.V. and for a satisfactory understanding of the scope of the audit by Ernst & Young Accountants LLP, this press release should be read in conjunction with the annual accounts from which this press release has been derived, together with the auditor's report thereon issued by Ernst & Young Accountants LLP. No audit was performed on the included fourth quarter figures.

Disclaimer

Statements included in this press release that are not historical facts (including any statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements. These statements are only predictions and are not guarantees. Actual events or the results of our operations could differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements are typically identified by the use of terms such as "may," "will," "should," "expect," "could," "intend," "plan," "anticipate," "estimate," "believe," "continue," "predict," "potential" or the negative of such terms and other comparable terminology.

The forward-looking statements are based upon our current expectations, plans, estimates, assumptions and beliefs that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements.