

Press release

TKH Group N.V. (TKH)

Results first half year 2018

Increase in turnover and result in all segments

Highlights second quarter 2018

- Turnover growth of 13.5% to € 414.7 million – organic growth +13.0%.
- Organic turnover growth in Building Solutions (11.8%) and Industrial Solutions (18.2%) – strong contribution from vertical growth markets.
- EBITA rises by 51.7% to € 47.1 million.

Highlights first half 2018

- Turnover growth of 12.0% to € 812.6 million – organic growth +11.9%.
- Organic turnover growth in Telecom Solutions (6.3%), Building Solutions (10.6%) and Industrial Solutions (14.8%).
- EBITA growth of 31.4% – increase in all segments.
- Net profit before amortization and one-off income and expenses attributable to shareholders up 35.1%.

Outlook

- Outlook for full-year 2018: Net profit before amortization and one-off income and expenses attributable to shareholders of between € 116 million and € 122 million (2017: € 95.6 million).

Key figures second quarter

(in € million unless otherwise stated)	Q2 2018	Q2 2017 ¹⁾	Change in %
Turnover	414.7	365.4	+ 13.5
EBITA	47.1	31.0	+ 51.7
Net profit before amortization and one-off income and expenses attributable to shareholders ²⁾	30.8	19.8	+ 55.6
Net profit	27.8	20.8	+ 33.4
ROS	11.4%	8.5%	

1) The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 'Revenue from contracts with customers'. As a result, turnover decreased with € 0.1 million and net profit with € 0.4 million.

2) Amortization of intangible non-current assets related to acquisitions (after taxes).

Key figures first half

(in € million unless otherwise stated)	H1 2018	H1 2017 ¹⁾	Change in %
Turnover	812.6	725.5	+ 12.0
EBITA	92.9	70.7	+ 31.4
Net profit before amortization and one-off income and expenses attributable to shareholders ²⁾	60.7	44.9	+ 35.1
Net profit	54.9	43.3	+ 26.9
Net earnings per ordinary share attributable to shareholders (in €)	1.30	1.02	
Net earnings per ordinary share before amortization and one-off income and expenses attributable to shareholders (in €) ²⁾	1.44	1.07	
ROS	11.4%	9.7%	
ROCE	20.8%	19.8%	

1) The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 'Revenue from contracts with customers'. As a result, turnover increased by € 0.4 million and net profit decreased with € 0.1 million.

2) Amortization of intangible non-current assets related to acquisitions (after taxes).

Alexander van der Lof, CEO of technology company TKH: *“The strong growth in both turnover and result in the first half year is the direct result of the strategy we launched, aimed at translating unique technologies into smart solutions for our customers. The growth we expected is now materializing as planned and we are clearly gaining benefits from the focus on our four core technologies and seven vertical growth markets. Strict investment discipline has helped us to substantially improve our market position in recent years and our start-up costs have gradually normalized. In anticipation of further turnover growth, costs are still outpacing income in the subsea (Marine & Offshore) and CEDD airfield ground lighting (Tunnel & Infra) segments. ROS increased to 11.4% in the first half of the year, which means we are well on track to realize our medium-term ROS target of 12-13%.”*

Financial developments second quarter

Turnover in the second quarter of 2018 was € 49.2 million higher (+13.5%) at € 414.7 million (Q2 2017: € 365.4 million). Acquisitions accounted for 0.4% of the increase. Higher raw materials prices accounted for an increase of 0.9% in turnover. On average weaker foreign currencies against the euro had a negative impact of 0.8% on turnover. On balance, turnover increased organically by 13.0%. The increase in turnover in the second quarter was realized primarily in Building Solutions and Industrial Solutions. These segments recorded organic growth of 11.8% and 18.2% respectively.

The operating result before amortization of intangible non-current assets and one-off income and expenses (EBITA) increased by 51.7% to € 47.1 million in the second quarter of 2018 (Q2 2017: € 31.0 million). The EBITA at Telecom Solutions, Building Solutions and Industrial Solutions was higher than in the second quarter of 2017. Due to a higher turnover, TKH operated more cost-efficiently. The start-up costs for investments in new technology, expansion of production capacity and market positioning declined considerably when compared to the same period of last year.

TKH recorded a ROS of 11.4% in the second quarter of 2018 (Q2 2017: 8.5%).

Net profit before amortization and one-off income and expenses attributable to shareholders was 55.6% higher at € 30.8 million (Q2 2017: € 19.8 million). Net profit increased by 33.4%.

Financial developments first half year

Turnover increased by 12.0% to € 812.6 million in the first half of 2018 (H1 2017: € 725.5 million). Organic turnover growth amounted to 11.9%. Higher raw materials prices accounted for an increase of 0.6% in turnover, while on average weaker foreign currencies against the euro had a negative exchange impact of 1.1% on turnover. Acquisitions accounted for turnover growth of 0.6%. All segments contributed to the growth in turnover.

The gross margin remained unchanged at 45.6% (H1 2017: 45.6%).

Operating expenses were 6.8% higher than in the first half of 2017. This increase was largely due to higher production levels. The operating expenses of the acquisitions accounted for a 0.8% increase in costs. As a percentage of turnover operating expenses declined to 34.2% in the first half of 2018, from 35.8% in the same period of 2017. Depreciation amounted to € 13.5 million in the first half of 2018, up from € 11.9 million in the first half of 2017. This is due to a high investment level over the past few years.

The operating result before amortization of intangible non-current assets and one-off income and expenses (EBITA) was 31.4% higher at € 92.9 million in the first half of 2018, compared with € 70.7 million in the first half of 2017. Compared to the first half of 2017, EBITA was up 41.4% at Telecom Solutions, up 28.0% at Building Solutions and 27.4% higher at Industrial Solutions.

ROS was higher in the first half of 2018 at 11.4% (H1 2017: 9.7%).

Amortization costs increased by € 0.4 million, due to higher R&D investments over the past few years.

The financial result improved by € 0.6 million due to the fact that a number of interest rate swaps expired at the end of 2017, as a result of which TKH was able to benefit from the lower interest rate levels in 2018. However, this was offset by negative currency effects of € 0.6 million. The result from other associates increased by € 0.6 million.

The effective tax rate increased to 23.7% in the first half of 2018, from 20.4% in the first half of 2017, partly due to higher profits in countries with a higher tax rate. In addition, the Dutch government has raised the tax rate for the innovation box facility to 7% from 5% effective 1 January 2018.

Net profit before amortization and one-off income and expenses attributable to shareholders rose by 35.1% to € 60.7 million (H1 2017: € 44.9 million). Net profit growth was 26.9% to € 54.9 million (H1 2017: € 43.3 million; net profit of the first half of 2017 was impacted by one-off untaxed income totaling € 3.6 million).

Net bank debt calculated in line with the bank covenants increased by € 99.9 million from the year-end 2017 figure to € 257.7 million. This increase was related to the dividend pay-out, acquisition of the non-controlling interest held by third parties in Commend International, investments and higher working capital. Working capital as a percentage of turnover increased to 16.4% (mid-2017: 14.6%). The Net debt/EBITDA ratio was 1.3, which means that TKH is operating well within the financial ratio agreed with its banks. Solvency stood at 43.1% (H1 2017: 43.7%).

The number of employees with a permanent contract (FTEs) stood at 6,129 at 30 June 2018 (mid-2017: 5,766 FTEs). In addition, TKH had a total of 543 temporary employees at 30 June 2018 (mid-2017: 491).

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 fibre and copper cable systems. The remaining 60%, consisting of components and systems in the field of connectivity and peripherals, is deployed primarily in network hubs.

Key figures

(in € million unless otherwise stated)	H1 2018	H1 2017 ¹⁾	Change in in %
Turnover	99.6	94.1	+ 5.8
EBITA	15.8	11.2	+ 41.4
ROS	15.8%	11.8%	

1) The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 'Revenue from contracts with customers'. As a result, turnover decreased with € 0.1 million. EBITA remained unchanged.

Turnover in the Telecom Solutions segment increased by 5.8% to € 99.6 million. Currency exchange rates had a negative impact of 0.5% on turnover. Turnover increased organically by 6.3%.

EBITA was 41.4% higher at € 15.8 million. ROS improved to 15.8% in the first half of 2018 (H1 2017: 11.8%).

Fibre network systems - optical fibre, optical fibre cables, connectivity systems and components, active peripherals – turnover share 7.9%

The organic turnover growth was 6.3%. The growth was primarily realized in Germany, France and Poland. The high capacity utilization level, improved efficiency and demand for high -fibre count cable specifications also had a positive impact on the result. While growth in China has slowed down, the strong global demand for optical fibre remains undiminished. Our growth was hampered by the availability of preforms, a semi-finished product used to draw optical fibre. However, TKH will benefit

from the capacity expansion for preforms at its joint venture partner. TKH will also expand its optical fibre production capacity. We expect the additional capacity to be fully available in mid-2019.

Indoor telecom & Copper networks - home networking-systems, broadband connectivity, IPTV software solutions, copper cable, connectivity systems and components, active peripherals – turnover share 4.4%

Turnover in this sub-segment saw organic growth of 6.2%. This growth was mainly realized in the broadband connectivity portfolio for the Benelux and Germany. The gross margin increased due to an improved product mix.

Building Solutions

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

Key figures

(in € millions unless otherwise stated)	H1 2018	H1 2017 ¹⁾	Change in %
Turnover	345.0	312.2	+ 10.5
EBITA	34.4	26.9	+ 28.0
ROS	10.0%	8.6%	

1) The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 'Revenue from contracts with customers'. As a result, turnover and EBITA increased by € 0.2 million.

The Building Solutions segment saw turnover increase by 10.5% to € 345.0 million. Higher raw materials prices had an impact of 0.8% on turnover. Currency exchange rates had a negative impact of 2.1%. Acquisitions contributed 1.2% to turnover. On balance, turnover increased organically by 10.6% in the first half of 2018.

EBITA increased by 28.0% to € 34.4 million. Start-up costs normalized in the first half, with the exception of the costs related to subsea cable production and the development of the airfield ground lighting portfolio (CEDD). ROS improved to 10.0% in the first half (H1 2017: 8.6%).

Vision & security systems - vision technology based on 2D and 3D camera technology, 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 22.7%

Turnover increased organically by 3.9%. The vertical growth market Parking accounted for an important share of this growth. This market saw strong order intake, especially in the field of parking guidance systems, which led to further growth in both turnover and the order book.

Machine Vision recorded strong growth in 3D smart sensor technology. With a view to future growth prospects, TKH further expanded production capacity, which led to higher operating costs.

Due to the program initiated last year to further increase our focus on core activities and on improving returns, TKH terminated a number of activities in the security segment.

Connectivity systems - specialty cable (systems) for marine, rail, infrastructure, wind energy, as well as installation and energy cable for niche markets, structured cabling systems and connectivity systems for contactless energy and data distribution – turnover share 19.7%

Turnover increased organically by 19.6%. This growth was realized in several market segments. For instance, market volumes continued to grow in the construction and infrastructure sector. The higher investment needs for energy networks in connection with alternative energy resources had a positive impact on the demand for energy cables from network companies. Turnover came in higher in the data cable system segment.

Marine & Offshore also recorded growth, partly due to the start-up of the new production facility for subsea cable systems. The vertical growth market Tunnel & Infra recorded significant growth due to the increase of TKH's market share in airfield ground lighting (AGL) systems. The new CEDD technology for AGL, which integrates various TKH technologies and competencies, was applied successfully in a number of projects.

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

Key figures

(in € million unless otherwise stated)	H1 2018	H1 2017 ¹⁾	Change in %
Turnover	368.0	319.2	+ 15.3
EBITA	51.7	40.6	+ 27.4
ROS	14.0%	12.7%	

1) The comparative figures for 2017 have been restated due to retrospective application of IFRS 15 'Revenue from contracts with customers'. As a result, turnover increased by € 0.2 million and EBITA decreased with € 0.3 million.

Turnover in the Industrial Solutions segment increased by 15.3% to € 368.0 million. Turnover increased by 0.6% on the back of on average higher raw materials prices. Currency exchange rates had a negative impact of 0.2% on turnover. Acquisitions contributed 0.1% to turnover. Turnover increased organically by 14.8%.

EBITA rose by 27.4% to € 51.7 million as a result of higher turnover and higher production capacity utilization. As a result, ROS increased to 14.0% in the first half of 2018, compared with 12.7% in the first half of 2017.

Connectivity systems - specialty cable systems and modules for the medical, robot, automotive and machine building industries – turnover share 18.7%

Organic turnover growth was 12.4% in this sub-segment, in particular due to the growing demand for capital goods with a need for robotization and automation. With our cables and cable systems we are well positioned for this robotization and automation application. In addition, we realized higher turnover in the medical industry.

Our investment in the new production facility for high-grade industrial cable systems in China is on schedule and we will take this new facility into use in the third quarter of this year.

Manufacturing systems - advanced tire manufacturing production systems for the car and truck tire manufacturing industries, can washers, testing equipment, product handling systems for the medical industry and machine operating systems – turnover share 26.6%

This sub-segment recorded an organic turnover increase of 16.6%. This increase was due to the higher order intake over the past few quarters, which resulted in higher levels of engineering and production. Both EBITA and ROS improved, despite the relatively high number of new machines and applied technologies. Order intake amounted to € 80 million in the second quarter of 2018 (H1 2018: € 203 million). The share of the top-five tire manufacturers in order intake continued to increase. TKH has decided to further increase the capacity at its Polish production facility, related to the envisaged growth and the flexibility in our production locations.

Outlook

The outlook for the second half of the year per Solution segment is as follows.

Telecom Solutions

At Telecom Solutions, we expect to see a slight decline in demand for optical fibre in China, while the demand for optical fibre networks in Europe will continue to be strong. Thanks to the market positions we have gained, the growth potential for TKH will be largely concentrated in Europe. The capacity expansion we have initiated will only materialize in 2019. TKH expects the result for the second half of the year to be in line with the first half of the year.

Building Solutions

At Building Solutions, turnover will increase in the second half of the year. The order book and order intake in both connectivity systems and vision & security systems are at a good level. Despite the fact that the second half will also include start-up costs, on balance we expect the result for the second half of the year to be slightly higher than in the first half of the year.

Industrial Solutions

At Industrial Solutions, turnover will be slightly lower in the second half of the year, despite the well-filled order book in both connectivity systems and manufacturing systems. In the connectivity systems segment, we are seeing a shift in current orders in the German machine building sector, which will have a negative impact on turnover in the second half of the year. Based on the order intake in the first half year and the current order book, we expect the activities in the manufacturing systems segment to remain at a high level and TKH has initiated further investment in the expansion of capacity for the medium term. TKH expects the result at Industrial Solutions to be slightly lower in the second half of the year, in line with turnover development.

On balance and barring unforeseen circumstances, TKH expects a net profit before amortization and one-off income and expenses attributable to shareholders for 2018 of between € 116 million and € 122 million (2017: € 95.6 million).

Haaksbergen, 14 August 2018

Executive Board

For further information:

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Financial calendar

1 November 2018	Trading Update Q3 2018
5 March 2019	Publication annual results 2018
3 May 2019	Trading Update Q1 2019
6 May 2019	General Meeting of Shareholders
13 August 2019	Publication interim results 2019
5 November 2019	Trading update Q3 2019

Profile

Technology firm TKH Group NV (TKH) is an internationally operating group of companies, which is specialized in developing and supplying 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 to each other to create comprehensive systems and solutions in our three business segments. Within these business segments there is a strong focus on seven vertical growth markets - fibre optic networks, parking, care, tunnel & infra, marine & offshore, machine vision and tire building industry - in which our core technologies are positioned as a one-stop-shop for our customers. TKH strives for far-reaching synergy and co-operation between its subsidiaries.

TKH strives to achieve strong market positions based on its innovative core technologies and services. TKH and its subsidiaries operate on a global scale. Growth is concentrated in Europe, North America and Asia. In 2017, TKH achieved a turnover of € 1.5 billion with 5,900 employees (FTE).

Consolidated profit and loss account

in thousands of euros

	1 st half year 2018	1 st half year 2017 ¹⁾
Total turnover	812,626	725,535
Changes in inventory of finished goods and work in progress	-15,325	-8,847
Raw materials, consumables, trade products and subcontracted work	457,399	403,797
Personnel expenses	191,242	175,551
Other operating expenses	72,929	72,392
Depreciation	13,455	11,918
Amortization	18,617	18,226
Impairments	387	122
Total operating expenses	738,704	673,159
Operating result	73,922	52,376
Financial income	638	416
Financial expenses	-3,612	-3,981
Exchange differences	-956	-309
Share in result of associates	1,635	1,063
Change in value financial liabilities for earn-out and put options non-controlling interests	-98	3,585
Result before taxes	71,529	53,150
Tax on profit	16,611	9,871
Net result	54,918	43,279
Attributable to:		
Shareholders of the company	54,815	42,788
Non-controlling interests	103	491
	54,918	43,279
Earnings per share		
Weighted average number of shares (x 1,000)	42,016	42,076
Weighted average number of shares for the purpose of diluted earnings per share (x 1,000)	42,347	42,307
Ordinary earnings per share before amortization and one-off income and expenses (in €)	1.44	1.07
Ordinary earnings per share (in €)	1.30	1.02
Diluted earnings per share (in €)	1.29	1.01

1) The comparative figures for 2017 have been restated as a result of retrospective application of IFRS 15 'Revenue from contracts with customers'.

Consolidated statement of comprehensive income

in thousands of euros

	1 st half year 2018	1 st half year 2017 ¹⁾
Net result	54,918	43,279
Items that may be reclassified subsequently to profit or loss (net of tax)		
Currency translation differences	2,483	-9,229
Effective part of changes in fair value of cash flow hedges (after tax)	-4,627	1,472
Revaluation of available-for-sale financial assets		1,895
Other comprehensive income (net of tax)	-2,144	-5,862
Comprehensive income for the period (net of tax)	52,774	37,417
Attributable to:		
Shareholders of the company	52,671	36,947
Non-controlling interests	103	470
Total comprehensive income for the period (net of tax)	52,774	37,417

1) The comparative figures for 2017 have been restated as a result of retrospective application of IFRS 15 'Revenue from contracts with customers'.

Consolidated balance sheet

in thousands of euros

	30-06-2018	31-12-2017 ¹⁾
Assets		
<u>Non-current assets</u>		
Intangible non-current assets	391,037	392,152
Tangible non-current assets	234,146	229,212
Investment property	251	251
Financial non-current assets	14,494	13,526
Deferred tax assets	22,972	23,057
Total non-current assets	662,900	658,198
<u>Current assets</u>		
Inventories	255,765	218,804
Receivables	244,669	217,198
Contract assets	121,021	89,662
Contract costs	150	12,938
Current income tax	2,541	2,805
Cash and cash equivalents ²⁾	98,560	87,719
Total current assets	772,706	629,126
Total assets	1,385,606	1,287,324
Equity and liabilities		
<u>Group equity</u>		
Shareholders' equity	596,171	594,357
Non-controlling interests	1,184	8,440
Total group equity	597,355	602,797
<u>Non-current liabilities</u>		
Non-current liabilities	279,948	187,335
Deferred tax liabilities	49,715	52,211
Retirement benefit obligation	8,243	8,172
Financial liabilities	2,719	2,890
Provisions	5,044	4,955
Total non-current liabilities	345,669	255,563
<u>Current liabilities</u>		
Borrowings ²⁾	75,516	57,350
Trade payables and other payables	277,293	286,348
Contract liabilities	74,047	60,267
Current income tax liabilities	6,041	5,762
Financial liabilities	2,885	11,781
Provisions	6,800	7,456
Total current liabilities	442,582	428,964
Total equity and liabilities	1,385,606	1,287,324

1) The comparative figures for 2017 have been restated as a result of retrospective application of IFRS 15 'Revenue from contracts with customers'.

2) Including € 43.2 million (2017: € 42.0 million) cash and cash equivalents that are part of a cash pool.

Consolidated cash flow statement

in thousands of euros

	1 st half year 2018	1 st half year 2017 ¹⁾
Cash flow from operating activities		
Operating result	73,922	52,376
Depreciation, amortization and impairment	32,603	30,024
Result on divestments	-151	
Share and option schemes not resulting in a cash flow	1,927	1,352
Changes in provisions	-496	316
Changes in working capital	-85,930	-24,968
Cash flow from operations	21,875	59,100
Interest paid	-2,888	-3,565
Income taxes paid	-15,836	-10,800
Net cash flow from operating activities (A)	3,151	44,735
Cash flow from investing activities		
Dividends received from non-controlling associates	107	1,063
Loans		-149
Repayment on loans granted	764	
Purchases of tangible non-current assets	-18,507	-21,273
Disposals of tangible non-current assets	358	480
Net cash flow on investments and divestments of investment property		1,240
Acquisition of subsidiaries	-670	-3,288
Investment in intangible non-current assets	-16,929	-15,792
Net cash flow from investing activities (B)	-34,877	-37,719
Cash flow from financing activities		
Dividends paid	-51,498	-47,631
Settlement of financial liabilities for put-options non-controlling interests	-9,165	-1,548
Purchased and sold shares for share and option schemes	-7,833	-11,428
Proceeds from long-term debts	92,613	21,573
Change in borrowings	16,959	38,283
Net cash flow from financing activities (C)	41,076	-751
Net decrease in cash and cash equivalents (A+B+C)	9,350	6,265
Exchange differences	284	-4,233
Change in cash and cash equivalents	9,634	2,032
Cash and cash equivalents at 1 January ²⁾	45,713	58,704
Cash and cash equivalents at 30 June ²⁾	55,347	60,736

1) The comparative figures for 2017 have been restated as a result of retrospective application of IFRS 15 'Revenue from contracts with customers'.

2) Short term borrowings that are part of a cash pool have been netted against cash and cash equivalents.

Consolidated statement of changes in group equity

In thousands of euros	Share capital	Share premium	Legal reserves	Revaluation reserves	Investment revaluation reserve	Translation reserve	Cash flow hedge reserve	Retained earnings	Unappropriated profit	Total shareholders' equity	Non-controlling interests	Total group equity
Balance at 1 January 2017 before IFRS 15 restatement	10,709	85,021	43,213	415	5,042	21,603	-2,593	324,883	85,707	574,000	8,520	582,520
IFRS 15 restatement								1,335		1,335		1,335
Balance at 1 January 2017 after IFRS 15 restatement	10,709	85,021	43,213	415	5,042	21,603	-2,593	326,218	85,707	575,335	8,520	583,855
Net result									42,788	42,788	491	43,279
Total other comprehensive income					1,895	-9,208	1,472			-5,841	-21	-5,862
Total comprehensive income	0	0	0	0	1,895	-9,208	1,472	0	42,788	36,947	470	37,417
Appropriation profit last year								85,707	-85,707	0		0
Dividends								-46,239		-46,239	-1,116	-47,355
Dividends to shareholders of non-controlling interests								-273		-273	-3	-276
Share and option schemes (IFRS 2)								1,352		1,352		1,352
Purchased shares for share- and option schemes								-17,496		-17,496		-17,496
Sold shares for share- and option schemes								6,068		6,068		6,068
Change in legal reserve for participations			-237					237		0		0
Capitalized development costs			4,767					-4,767		0		0
Balance at 30 June 2017	10,709	85,021	47,743	415	6,937	12,395	-1,121	350,807	42,788	555,694	7,871	563,565
Balance at 1 January 2018 before IFRS 9 restatement	10,709	85,021	55,133	188	0	9,224	2,441	345,340	86,301	594,357	8,440	602,797
IFRS 9 restatement								-812		-812		-812
Balance at 1 January 2018 after IFRS 9 restatement	10,709	85,021	55,133	188	0	9,224	2,441	344,528	86,301	593,545	8,440	601,985
Net result									54,815	54,815	103	54,918
Total other comprehensive income					0	2,518	-4,627	-32		-2,141	-3	-2,144
Total comprehensive income	0	0	0	0	0	2,518	-4,627	-32	54,815	52,674	100	52,774
Appropriation profit last year								86,301	-86,301	0		0
Dividends								-50,434		-50,434		-50,434
Dividends to shareholders of non-controlling interests								-1,054		-1,054	-10	-1,064
Acquisition of non-controlling interests								7,346		7,346	-7,346	0
Share and option schemes (IFRS 2)								1,927		1,927		1,927
Purchased shares for share- and option schemes								-13,458		-13,458		-13,458
Sold shares for share- and option schemes								5,625		5,625		5,625
Change in legal reserve for participations			-49					49		0		0
Capitalized development costs			4,497					-4,497		0		0
Balance at 30 June 2018	10,709	85,021	59,581	188	0	11,742	-2,186	376,301	54,815	596,171	1,184	597,355

Notes to the interim financial report

1. Accounting principles for financial reporting

The accounting policies for the valuation of assets and liabilities and determination of the result (hereafter 'valuation principles') are the same as the accounting principles applied for the consolidated financial statements 2017, with the exception of the new or amended standards and interpretations described below. Annual accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Section 2: 362 sub 9 of the Dutch Civil Code (Dutch Civil Code).

The interim financial report has been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the group for the year ended 31 December 2017.

2. Implemented new or changed standards and interpretations

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

- IFRS 9 Financial Instruments
- IFRS 15 Revenues from Contracts with Customers

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement*. Through the application of IFRS 9, the valuation and presentation of the financial instruments has changed and depends on their contractual cash flows and the business model under which they are held. Due to the replacement of the 'incurred loss' model by a so-called 'expected credit loss' model, the allowance for doubtful debtors has increased. TKH applies a risk matrix, using historical credit risk experience (adjusted if necessary), to estimate the expected credit risk on trade and other receivables and contract assets. The modified hedge accounting rules do not affect the financial statements, because the current hedges for which hedge accounting is applied are also considered effective under IFRS 9. Hedges that qualify for hedge accounting in accordance with IAS 39, and that also qualify under the new standard, are considered to be a continued hedge. TKH applies IFRS 9 as from 1 January 2018 without restating the comparative figures.

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

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

- Certain products and systems are so customer specific that an alternative use is not possible for other customers. At the same time, TKH has an enforceable right to payment for the performance completed to-date. As a result of this, the turnover is no longer to be accounted for at-a-point in time, but over time. This change mainly concerns customer-specific cables, cable systems and machine vision systems.
- Under IFRS 15, optional payment discounts are considered to be part of the transaction price. This is currently accounted for at the moment that the customer uses this discount. However, this discount must be recognized at an earlier stage, namely when the turnover is recognized.

- Under IFRS 15, indirect costs, such as administration and management costs, cannot be part of the contract assets, unless explicitly stated in the contract that it can be charged. On the other hand, the incremental commission costs as a result of obtaining a contract are classified separately as contract costs and amortized over the expected contract duration. In addition, waste, occupancy losses and inefficiencies as far as they are abnormal, must be recognized as period costs, while these costs were previously allocated to projects. These adjustments result in a revision of the project costs and therefore to a lower progress percentage and thus a deferred profit recognition.

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

The application of IFRS 15 has no material impact on the shareholders' equity as at 31 December 2017 as well on the results for the first half of 2017. The impact of IFRS 9 and IFRS 15 on the balance sheet, equity and result is as follows.

Impact IFRS 15 on the consolidated balance sheet of 1 January 2017

in thousands of euros	1-1-2017	IFRS 15	1-1-2017 restated
Non-current assets			
Deferred tax assets	20,768	604	21,372
Current assets			
Inventories	206,949	-13,346	193,603
Receivables	192,967	-156	192,811
Contract assets	100,568	4,809	105,377
Contract costs	0	10,866	10,866
Group equity	582,520	1,335	583,855
Non-current liabilities			
Deferred tax liabilities	52,660	1,442	54,102

Impact IFRS 15 on the consolidated profit and loss account of the 1st half year 2017

	1 st half year 2017 published	IFRS 15	1 st half year 2017 restated
Total turnover	725,180	355	725,535
Raw materials, consumables, trade products and subcontracted work	394,422	528	394,950
Added value	330,758	-173	330,585
EBITA	70,897	-173	70,724
Result before taxes	53,323	-173	53,150
Tax on profit	9,898	-27	9,871
Net result	43,425	-146	43,279

Impact IFRS 15 on the consolidated balance sheet of 31 December 2017 and impact IFRS 9 on the opening balance sheet as of 1 January 2018

	31-12-2017 published	IFRS 15	31-12-2017 restated	IFRS 9	1-1-2018 restated
Non-current assets					
Deferred tax assets	21,838	1,219	23,057	249	23,306
Current assets					
Inventories	233,626	-14,822	218,804		218,804
Receivables	217,377	-179	217,198	-1,061	216,137
Contract assets	86,803	2,859	89,662		89,662
Contract costs		12,938	12,938		12,938
Group equity	602,512	285	602,797	-812	601,985
Non-current liabilities					
Deferred tax liabilities	50,481	1,730	52,211		52,211

TKH has not opted for early adoption of IFRS 16 *Leases*, of which the application is mandatory for accounting periods that begin on or after 1 January 2019. Under IFRS 16 all lease and rental obligations, such as lease contracts relating to real estate, must be included in the balance sheet as of 1 January 2019. There is an exemption for leases of assets with a low value and for leases with a short-term. The profit and loss account will also change because the recognition of costs for operational leases under other operating expenses is replaced by depreciation and interest expenses. TKH has not yet made a detailed calculation of the impact of IFRS 16, but expects that the non-current assets ('right-of-use assets') and lease obligations will increase considerably. TKH has agreed with its banking group that the changes due to IFRS 16 will have no impact on the bank covenant during the term of the current finance agreement.

3. Judgments

In preparing the consolidated interim financial statements, management has made judgments, estimates and assumptions. These judgments, estimates and assumptions affect the reported amounts of assets and liabilities, revenues and expenses and disclosed contingent assets and liabilities at the date of the interim financial statements. The actual outcome can vary from these judgments, estimates and assumptions. The key sources used for judgments, estimates and assumptions were the same as those that applied to the consolidated financial statements as per 31 December 2017.

4. Statutory capital

The number of outstanding (depository receipts of) shares as per 31 December 2017 amounted to 42,048,932. Due to the exercise of options rights and share schemes, a balance of 54,275 (depository receipts of) shares were purchased in the first half of 2018. As a result, the number of (depository receipts of) shares outstanding with third parties as per 30 June 2018 was 41,994,657.

5. Dividend

At the General Meeting of Shareholders 2018 the dividend over 2017 was declared at € 1.20 per (depository receipts of) ordinary share. The dividend on the priority shares was declared at € 0.05 per share. The total amount in dividends paid in the first half of 2018 was € 50,434,000 and this amount was charged to the other reserves (H1 2017: € 46,239,000).

6. Segmented information

in thousands of euros

	Telecom Solutions		Building Solutions		Industrial Solutions		Not Attributable		Total	
	H1 2018	H1 2017 ¹⁾	H1 2018	H1 2017 ¹⁾	H1 2018	H1 2017 ¹⁾	H1 2018	H1 2017 ¹⁾	H1 2018	H1 2017 ¹⁾
Turnover	99,564	94,132	345,041	312,209	368,021	319,194			812,626	725,535
Segment EBITA ²⁾	15,777	11,153	34,427	26,901	51,663	40,561	-8,941	-7,891	92,926	70,724
Amortization	-566	-517	-13,786	-13,809	-4,253	-3,870	-12	-30	-18,617	-18,226
Impairments ³⁾		114	-34	-97	-353	-139			-387	-122
Segment operating result	15,211	10,750	20,607	12,995	47,057	36,552	-8,953	-7,921	73,922	52,376
Financial income and expenses									-3,930	-3,874
Share of result in associates									1,635	1,063
Change in value financial liabilities for earn-out and put options non-controlling interests									-98	3,585
Tax on profit									-16,611	-9,871
Net result									54,918	43,279

1) The comparative figures for 2017 have been restated as a result of retrospective application of IFRS 15 'Revenue from contracts with customers'.

2) EBITA: Operating result before amortization and impairment of intangible non-current assets.

3) Impairments relate to impairments of intangible non-current assets (€ 0.4 million).

7. Overview of net profit definitions

in thousands of euros	1 st half year 2018	1 st half year 2017 ¹⁾
Net profit attributable to shareholders of the company	54,815	42,788
Net profit attributable to non-controlling interests	103	491
Net result	54,918	43,279
Amortization of acquisition related intangible non-current assets based on preliminary "purchase price allocations"	7,518	7,717
Taxes on the amortizations	-2,028	-2,073
Impairments	387	122
Change in value financial liabilities for earn-out and put options non-controlling interests	98	-3,585
Taxes on one-off income and expenses	-25	-32
Net result before amortization and one-off income and expenses	60,868	45,428
Attributable to non-controlling interests	-103	-491
Ordinary earnings before amortization and one-off income and expenses attributable to shareholders of the company	60,765	44,937

1) The comparative figures for 2017 have been restated as a result of the retrospective application of IFRS 15 'Revenue from contracts with customers'.

8. Acquisition

On 15 January 2018, TKH acquired all shares of Akutron LLC, based in Kiev (Ukraine). Akutron produces medical and industrial cable assemblies and related products. The company will strengthen the production capacity of TKH with specific competences in the field of assembly. The activities of Akutron will be part of the TKH sub-segment industrial connectivity systems, within the business segment Industrial Solutions. The company realizes a turnover of approximately € 1 million with 60 FTE.

9 Contingent liabilities

The contingent liabilities which are not reflected in the balance sheet, as reported in the consolidated financial statements for 2017, have not essentially changed in the first half 2018.

10. Events after balance sheet date

There have been no events of fundamental significance for insight into the financial statements and the preceding period occurred after balance sheet date.

11. Risks

In our Annual Report 2017 we have extensively described certain risk categories and risk factors which could have an (adverse) impact on our financial position and results. Per 30 June 2018 the risk categories and risk factors have been reanalyzed and is concluded that these are still applicable.

12. Executive Board declaration

This report contains the interim financial report of TKH Group NV. The interim financial report ended 30 June 2018 consists of the condensed consolidated interim financial statements, the interim director's report and Executive Board declaration. The information in this interim financial report is unaudited. The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements of TKH for the year ended 31 December 2017.

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

13. Signature of interim report

Haaksbergen, 14 August 2018

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

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

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.