



ANNUAL REPORT 2016





Hydratec Industries NV

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Chamber of Commerce (Amersfoort) number 23073095.

Disclaimer:

This international Annual Report 2016 serves as an indicative and shortened version of the official Dutch Annual Report 2016, which is published on the Company's website www.hydratec.nl. In the case of contradictions, the Dutch version shall prevail.

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FOREWORD FROM THE CEO

Dear shareholders, employees, clients and partners,

In 2016 unexpected events, such as the Brexit and the outcome of the American presidential election, caused international unrest, currency fluctuations and, partly as a consequence of these events, uncertainty in the global economy. This generally results in constantly increasing demands on a company's flexibility and manoeuvrability.

Hydratec's organisational structure of relatively autonomous operating companies offers a good basis for a high degree of manoeuvrability in the various markets. Its focus on two core activities – Agri & Food Systems and Plastic Components – gives Hydratec a healthy spread of activities that enables it to absorb fluctuations in demand. Due to the increasing world population and increasing welfare the operating companies are well positioned in both the Agri & Food market and the Automotive and Health Tech markets.

Technological developments are following each other in quick succession and sustainability has become a major prerequisite for growth. That means that the reduced use of raw materials, lower product weights, reduced energy usage, lower feed conversion, animal welfare and more

(chain) transparency are playing an increasingly important role. We applaud these developments because we see technology as a tool for introducing sustainable improvements in our production processes and those of our clients at a faster rate than our competitors.

In response to changing market demands, last year every one of the Hydratec companies invested in new technology. This contributed towards enabling the operating companies to acquire orders from existing and new clients and has given us a firm basis from which to look ahead to the future with confidence.

A company's long-term success depends first and foremost on the dedication and efforts of its employees and the appreciation of these efforts by its clients. This means we can only be successful if we simultaneously serve the needs of our employees, clients and shareholders in both the short and long term. I know that in 2016 the employees in the Hydratec operating companies once again worked very hard and did their utmost to contribute towards our clients' success. We have been joined by many new and talented colleagues.

I would like to thank all our colleagues for their hard work during the past year.

This commitment will enable us all to achieve our goals.

I would also like to thank our clients, partners and shareholders for their trust.

Bart Aangenendt

CEO



PROFILE AND ORGANISATION

BUSINESS BACKGROUND

Hydratec Industries NV is a globally-active specialist in industrial systems and components, with a focus on the Agri & Food, Automotive and Health Tech markets. Hydratec has two core activities: Agri & Food Systems and Plastic Components.



Stock exchange listed since 1997



Around 800 employees

3 MARKETS



Agri & Food



Automotive



Health Tech

2 CORE ACTIVITIES

Agri & Food Systems

Plastic Components

4 COMPANIES

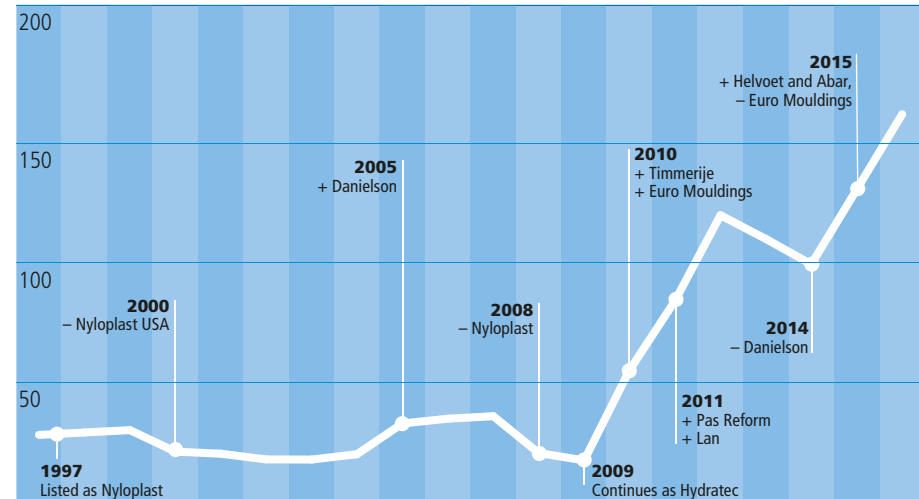
Lan Handling Technologies

Helvoet

Pas Reform Hatchery Technologies

Timmerije
NEXT LEVEL IN PLASTICS

MILESTONES (NET REVENUE (X 1 MLN.))



PRESENCE

12 COUNTRIES

Production and service centres



The growing world population and increasing welfare means the Hydratec companies are well positioned.



Food safety and transparency
are increasingly important.

AGRI & FOOD SYSTEMS Pas Reform Hatchery Technologies



Pas Reform
Hatchery Technologies



The Pas Reform Academy carries out research into the influence of the incubation process on chick embryo development.

Pas Reform is the world's only single-source supplier of integrated hatchery solutions and has a presence in more than one hundred countries.

Since its founding in 1919 Pas Reform has expanded into an international company offering total solutions to the hatchery industry. Pas Reform is active in the following product groups:

- Industrial incubators for the production of uniform, robust day-old chicks;
- Hatchery automation systems for the efficient processing of hatching eggs and day-old chicks;
- Climate control equipment for sustainable and hygienic air and water treatment;
- Hatchery management software for monitoring, analysing and optimising the hatching process;

- Service and support for the efficient and reliable operation of integrated hatchery systems.

Pas Reform has extensive experience with providing advice regarding the design, installation and operation of these systems.

At the heart of the Company is the Pas Reform Academy which, in close co-operation with clients and universities, carries out research into the influence of the incubation process on chick embryo development. This specialist expertise is used to develop new, innovative products and

services for the hatchery industry and to train and coach hatchery managers.

Pas Reform exports to more than 100 countries. Sales and service activities are carried out via the head office in Zeddum and a joint venture in the USA. Pas Reform also has its own sales offices in Africa, Asia, Europe, the Middle East and South America and an extensive network of local partners and agents. The products are distributed all over the world from the logistics centres in Doetinchem (NL), Jacksonville (US) and Rio Claro (BR).

Pas Reform's around 100 employees focus primarily on the development, sale, final assembly and service of the hatchery systems.

www.pasreform.com

AGRI & FOOD SYSTEMS Lan Handling Technologies



Lan
Handling Technologies



Lan has gained a solid position within the global market for sterilised food and pharmaceutical products.

Lan Handling Technologies' systems are made-to-measure based on standardised and proven technology.

Lan Handling Technologies specialises in the handling of packaged and loose products in the global food, pharmaceutical and hatchery industries.

Lan offers its clients turnkey solutions for the handling of various products. Lan's systems are made-to-measure based on standardised and proven technology. Most of the Company's revenue is generated outside the Netherlands.

In part due to intensive partnerships with leading multinationals in the food industry, Lan has gained a solid position within the global market for sterilised food and pharmaceutical products. Inventive robotics combined with

robust mechanical solutions and advanced control technologies offer the client an extensive pallet of possibilities. Lan's portfolio also includes so-called End of Line solutions for handling products up to and including packaging. Its existing product range means Lan Handling Technologies can offer its clients total solutions. In addition, Lan (in collaboration with sister company Pas Reform) supplies hatchery automation systems that enable the efficient and animal-friendly processing of hatching eggs and day-old chicks.

Lan Handling Technologies employs 110 people in its two facilities in Tilburg (HQ) and Halfweg. Their own specialists are responsible for system design, construction, assembly and installation. Multidisciplinary co-operation with the client is the foundation upon which the success of Lan Handling Technologies is based.

www.lanhandling.com

PLASTIC COMPONENTS Timmerije

Timmerije
NEXT LEVEL IN PLASTICS



The focus on process quality results in optimum product quality.

Timmerije is a leading designer and manufacturer of high-quality plastic products in the Benelux.

The company is located in Neede and has been a specialist in plastic injection moulding for over 50 years. Timmerije commands the entire process and its over 140 involved RAQ employees guarantee Responsibility, Ambition and Quality. Timmerije achieves smart and sustainable solutions by deploying its extensive expertise and experience on the basis of a professional approach and intensive co-operation between product and process development.

Service is offered by Timmerije's own engineering, tool making, assembly and warehouse departments. Project Management, mould construction, maintenance & repair

and the compiling of components are carried out under one roof. Timmerije is a leading designer and manufacturer of high-quality plastic products in the Benelux.

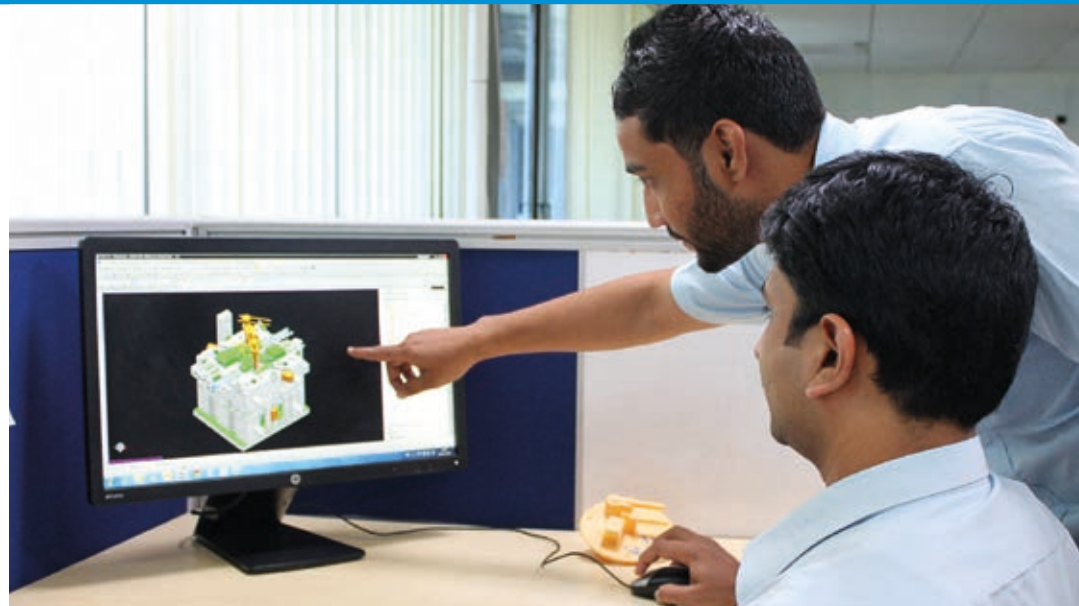
Design, production and logistics processes that are finely tuned to each other ensure a guaranteed time-to-market and continuity. Extensive knowledge of materials, moulds and innovative processing techniques give clients an advantage in the market.

Timmerije's machine park is equipped with 50 modern injection moulding machines with closing forces ranging

from 25 ton to 1,400 ton and state-of-the-art processes. Series of client-specific components for central heating boilers, chairs, bicycles, household equipment, electrical engineering installations, internal transport systems, the automotive industry and the Food & Agri industry are manufactured for just-in-time delivery.

www.timmerije.com

PLASTIC COMPONENTS Helvoet Rubber & Plastics Technologies



To enable it to maintain a high level of quality Helvoet invests continuously in people, processes and machines.

Helvoet, established in 1939, develops and manufactures client-specific rubber and plastic components and assemblies for high-precision applications.

Most of Helvoet's clients are internationally-operating companies in the automotive, food tech, health tech and industrial control sectors. Components made of plastic (thermoplastic and thermoharder), rubber, or a combination of these materials are developed in co-operation with the client. Thanks to its ability to also assemble the components into a half-finished product or a completely functional model in a cost-effective way, Helvoet occupies a unique position in the precision component world.

The products are used in a wide range of applications including fuel, brake and drive systems, motor

management, dosing systems for beer, coffee and milk, medical cartridges and diagnostic equipment. Series vary in size from medium to very large.

Technology based on plastic and rubber is developing continuously and new possibilities that can replace accepted materials are constantly being announced. The properties of thermoharder plastics in particular mean they are increasingly replacing metal components in the automotive industry to reduce weight and, therefore, environmental-impact. Helvoet's own rubber mixtures, alone or in combination with plastic or metal, are also providing solutions that previously were only possible with traditional materials.

Product and process quality is another driver of Helvoet's success. Today's demands are extremely high and zero defects is now the standard. The Helvoet companies possess all the quality systems and certification needed for their specific markets. To enable it to maintain this high level of quality Helvoet invests continuously in people, processes and machines.

Helvoet has sales & production facilities in the Netherlands (Hellevoetsluis and Tilburg), Belgium (Lommel), Germany (Munich) and India (Pune) and a sales office in the USA (Detroit). In total Helvoet employs around 660 people.

www.helvoet.com

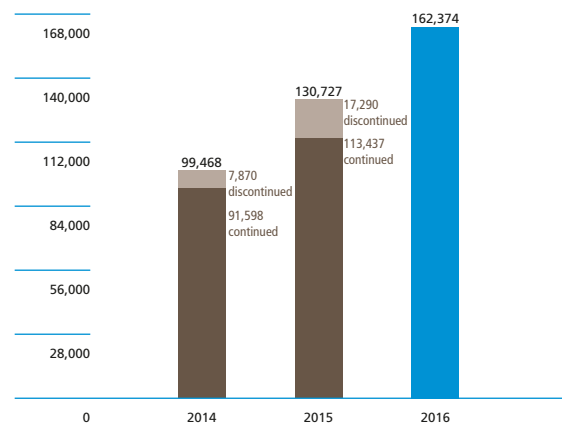


The applications using Plastic Components include fuel, brake and drive systems.

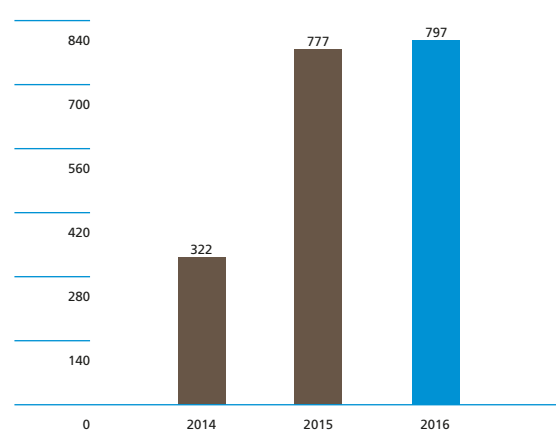
KEY FIGURES 2016

Amounts in thousands of euro unless stated otherwise

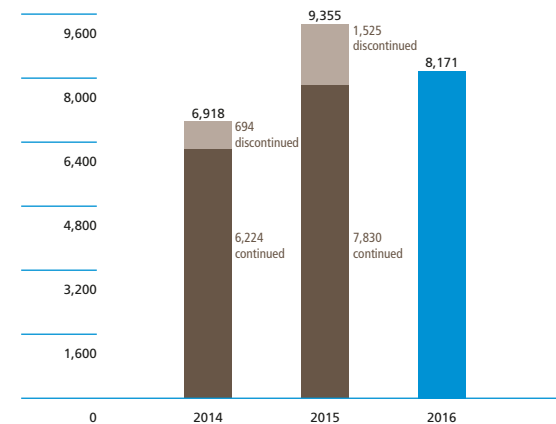
Net revenue



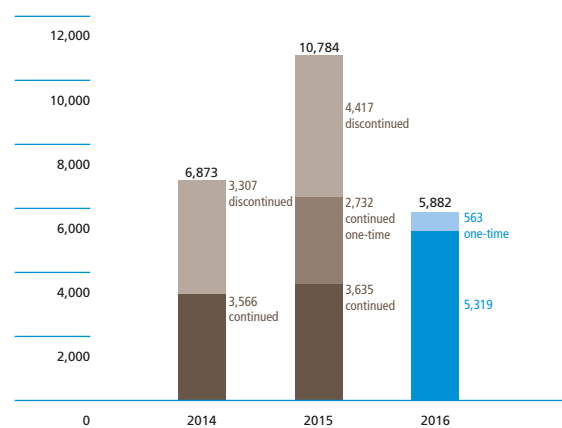
Number of employees (FTEs at year end)



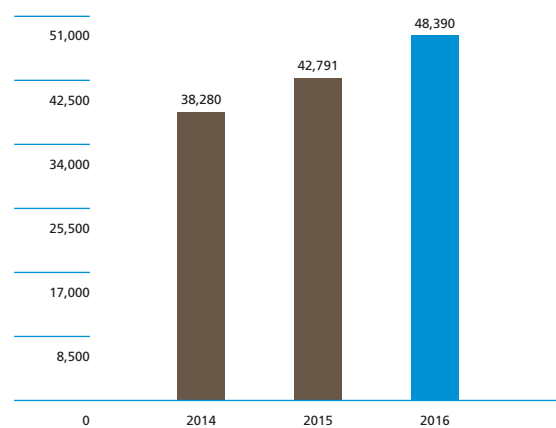
Operating profit



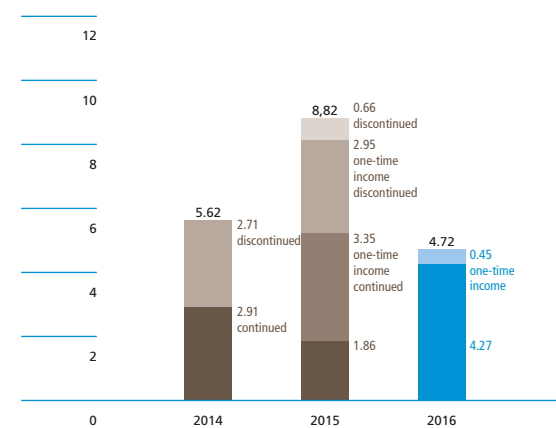
Net profit (attributable to shareholders)



Shareholders' equity



Earnings per share (in euro)



At € 162 million, revenue in 2016 was significantly higher than in 2015, mainly due to Helvoet and Abar being consolidated throughout the year.

At 797 the number of employees at the end of the year was comparable to 2015.

Operating profit amounted to € 8.2 million. This included one-time income of € 0.8 million.

Agri & Food's operating profit of € 3.9 million was considerably higher than in 2015.

Plastic Components' operating profit also rose substantially to € 5.4 million.

Net profit attributable to shareholders was € 5.9 million (including € 0.6 million one-time income), compared to 10.8 million (including € 7.7 million one-time income) in 2015.

Shareholders' equity rose from € 42.8 million to € 48.4 million, with solvency of 40.8% (2015: 35.6%).

Earnings per share amounted to € 4.72 including incidental income of € 0.45. Earnings per share for 2015 excluding incidental income amounted to € 1.86 (continued activities). The proposed dividend for 2016 is € 1.70 per share, an increase of 24% compared to 2015.

Profit and loss account	2016	2015¹
Net revenue	162,374	130,727
Operating profit	8,171	9,355
Net result	5,882	11,566
Net profit attributable to shareholders	5,882	10,784
Cash flow		
From operating activities	5,760	7,550
From investing activities	- 8,085	- 3,743
From financing activities	- 524	- 9,455
Net cash flow	- 2,849	- 5,648
Balance sheet		
Shareholders' equity	48,390	42,791
Balance sheet total	118,463	120,178

Key ratios	2016	2015
Operating profit as a % of revenue	5.0%	7.2% ¹
Return on invested capital ²	9.5%	5.3%
Return on shareholders' equity ³	11.7%	7.9%
Solvency ⁴	40.8%	35.6%
Number of issued shares	1,272,597	1,222,143
Earnings per share (in euro)	4.72	8.82
Number of employees ⁵	797	777

¹ Continued and discontinued.

² Net result excluding one-time income + interest expense as a % of the invested capital (total assets minus cash and cash equivalents minus current non-interest-bearing liabilities).

³ Net result excluding one-time income as a % of the average shareholders' equity attributable to Hydratec's shareholders.

⁴ Shareholders' equity as a % of the balance sheet total.

⁵ FTEs at year end.



In the Health Tech market many developments in the field of self-diagnosis are taking place.

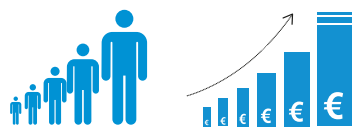
STRATEGY AND FINANCIAL TARGETS

STRATEGY

Hydratec is a globally-active specialist in industrial systems and components, with a focus on the Agri & Food, Automotive and Health Tech markets. Hydratec has two core activities: Agri & Food Systems and Plastic Components.

To meet the growing need for food, Agri & Food Systems supplies complete systems on a project basis around the world. This market is heavily dependent on macro-economic factors as is the spreading of risks.

Experts forecast that the global use of plastic will treble by 2050. The activities related to the industrial supply of Plastic Components are responding to this and have a more capital-intensive and process-related character so are less volatile.



The growing world population and increasing welfare means the Hydratec companies are well positioned.

The clients of the Hydratec companies are active in the following market segments:

- **Agri & Food**

To enable the world's growing population to continue being fed developments in the Agri & Food market will accelerate. The consumption of chicken in particular is expected to continue increasing structurally worldwide. The production of convenience food and pet food are also expected to increase substantially due to rising standards of living. As a result, food safety and animal welfare will play an increasingly important role.

- **Automotive**

The need for mobility is expected to continue rising as the world population increases. More stringent sustainability demands will lead to the development of other concepts and certainly to demands related to reducing the weight of vehicles. This trend offers opportunities for the replacement of relatively heavy metal components with lighter plastics with fewer design constraints.

- **Health Tech**

Increased welfare and longevity will result in a steady growth of the Health Tech market. Many developments are taking place, such as new diagnosis methods and new treatment delivery systems. Quality and hygiene specifications and stipulations are very stringent in this industry, for example, point-of-care diagnostics are assembled in clean room conditions.

Sustainability has become a major prerequisite for growth in all these markets. This not only means achieving more with less raw materials, but also that environmental-impact and society's acceptance of issues will play an increasingly important role in everything we and our clients do.

The strategy is aimed at the achievement by every Group company of consistent, long-term revenue and result growth that at a minimum conforms to the market. We strive, therefore, for leading positions in the various markets that make achieving high added-value for the end users possible. The smart application of new technologies will enable us to make a difference for our clients and broaden our offering to existing purchasers. Because the price of our products and services will remain a powerful competitive weapon for healthy growth, considerable energy is being put into various Operational Excellence programmes.

Sustainability has become a major prerequisite for growth in all our markets.

The strategic market positions and options of each company are evaluated annually, partly in the light of the achieved results. These evaluations form the basis for decisions regarding long-term investments and priorities in respect of product-market developments. This must offer our shareholders the prospect of a consistent and good return. We strive for the expansion of our existing activities and the possible broadening of our industrial activities through acquisitions and collaborations. All the current activities provide a basis for a so-called 'buy and build' acquisition strategy. At the same time, activities can be divested if we are convinced they will achieve better structural development within other business organisations and, therefore, offer insufficient longer-term potential for Hydratec.

ENTERPRISING MANAGEMENT AND EMPLOYEES

It is essential that every one of the companies has good and motivated management and employees. Only then can they be deemed manoeuvrable organisations that can react quickly to changing conditions. Management teams must be capable of identifying structural market opportunities, developing innovative products and steering their own organisations in a practical and stimulating manner. This includes the continuous promotion of the employees' personal development, including through training, on the basis of ambitious, but realistic, targets derived from scenarios that form a guideline for everyone involved. The Management Boards of Hydratec's companies are responsible for carrying out their own operating activities within a clear framework of decisions that require the approval of the Hydratec Management Board. These decisions relate primarily to budgeted investments, major organisational changes and fundamental amendments to

business operations. All business aspects, including the development of the results, are discussed during the regular consultation meetings between Hydratec's Management Board and the Management Boards of the operating companies. These discussions are based on a clear framework of regular reports, including analyses of the most important performance indicators. Many additional informal consultations and discussions also take place. Because manoeuvrability and entrepreneurship take centre stage within the different Group companies there is no basis for central staff departments. This enables overhead costs to be limited to the minimum.

FINANCIAL TARGETS

Sufficient continuous investment can only take place, and a buffer against setback can only be built-up, if the companies within Hydratec achieve healthy profitability. In concrete terms this means that the target for every company is an operating profit of at least 8% to 10% of revenue. This target may, however, be temporarily unachievable primarily as a result of economic conditions or organisational adjustments that are deemed necessary. Together with the envisioned growth and a solvency of at least 35%, Hydratec strives for a dividend distribution of at least 40% of the profit after taxes (excluding any one-time income).



INFORMATION FOR SHAREHOLDERS

STOCK MARKET LISTING

Hydratec's shares are listed on NYSE Euronext Amsterdam (ISIN NL 000 939 1242). The total number of issued shares amounts to 1.272.597.

FINANCIAL CALENDAR 2017

Announcement of annual figures	24 March
Trading update first quarter	10 May
General Meeting of Shareholders	31 May
Publication of half-year figures	27 July
Trading update third quarter	9 November

DISCLOSURE OF MAJOR HOLDINGS ACT

In the context of the Disclosure of Major Holdings Act, as at 6 April 2017 the following holdings of more than 3% were known:

Shareholder	Interest	Date of disclosure
A.C. ten Cate	23.31%	21 March 2017
F. ten Cate	23.31%	21 March 2017
J. ten Cate	23.31%	21 March 2017
P. Chr. van Leeuwen Beheer B.V.	5.74%	9 May 2014
B.F. Aangenendt	5.49%	28 June 2016
M. Spiensma	3.10%	2 December 2014

FINANCIAL DATA PER ORDINARY SHARE

Amounts in euro unless stated otherwise

	2016	2015 continued	2015 discontinued	2015 total
Number of issued shares	1,272,597			1,222,143
Weighted average number of shares	1,246,886			1,222,143
Operating profit	6.55	6.41	1.25	7.66
One-time income	0.45	3.35	2.95	6.30
Earnings per share	4.72	5.21	3.61	8.82
Shareholders' equity attributable to shareholders of Hydratec	38.81			35.01
Available cash flow ¹	- 1.86	- 5.78	8.89	3.11
Dividend	1.70			1.37
Price at year end	44.30			32.00
Lowest price	30.35			30.77
Highest price	48.00			36.60

¹ Sum of operating and investment cash flows.



MEMBERS OF THE SUPERVISORY BOARD

E. ten Cate (1945)

Chairman

First appointed: 2000

Current term ends: 2020

Current position: Director Bank ten Cate & Cie N.V.

Supervisory Board memberships/other positions held

Chairman of the Supervisory Board, Rijksmuseum Twente

Member of the Supervisory Board, Medisch Spectrum Twente

H.A.A. Kienhuis (1945)

Vice-chairman

First appointed: 2011

Current term ends: 2019

Last position held: lawyer and attorney

Supervisory Board memberships/other positions held

Vice-chairman, Stichting Edwina van Heek

Member of the Board, Stichting Continuïteit Reesink N.V.

J.E. Vaandrager (1943)

First appointed: 2011

Current term ends: 2019

Last position held: member of the Board and CFO, TKH Group NV

Supervisory Board memberships/other positions held

Member of the Supervisory Board, B.E. Semiconductor Industries N.V.

All the Supervisory Board members are Dutch nationals.



From left to right: E. ten Cate, J.E. Vaandrager, H.A.A. Kienhuis

REPORT OF THE SUPERVISORY BOARD

Last year was a good year for Hydratec Industries NV. All the companies were able to improve their result. The net profit for shareholders amounted to € 5.8 million from revenue of € 162 million. In 2015 the net result amounted to € 10.8 million, but this was, to a great extent, influenced by one-time income from the purchase of Helvoet and the sale of Euro Mouldings.

ANNUAL REPORT

We hereby submit the 2016 annual report, including the annual accounts, of Hydratec Industries NV prepared by the Management Board. The annual accounts have been audited by Baker Tilly Berk accountants and were discussed by us and the Management Board on 24 March 2017 in the presence of the Auditor. The Auditor's report is included on pages 74 to 79 of the official Dutch 2016 annual report, which can be found on www.hydratec.nl. On these grounds we are of the opinion that the annual report meets the specifications for transparency and forms a good basis for the Supervisory Board's accountability in respect of its supervision. We recommend that the shareholders adopt the annual accounts, approve the dividend proposal and discharge the Management Board for its management and the Supervisory Board for its supervision during 2016.

COMPOSITION OF THE SUPERVISORY BOARD

The members of the Supervisory Board are listed on page 18. The profile sketch of the Supervisory Board is published on the Company's website. The background and experience of the Supervisory Board members is diverse. One Supervisory Board member worked in a variety of functions in different companies and ended his active career as a member of the Board and the CFO of a stock exchange listed concern. The second Supervisory Board

member is an experienced entrepreneur who for many years has also been closely involved with Hydratec's development into the company it is today. During the coming Meeting of Shareholders Mr. H.A.A. Kienhuis will retire from the Supervisory Board. Hydratec is very grateful to him for his stimulating contribution during the past years. As his successor the Supervisory Board nominates Ms. M. Sanders. She has experience as an entrepreneur and as a member of various Supervisory Boards. The Supervisory Board is of the opinion that this variety of experience and background provides a good diversity.

SUPERVISION

Hydratec's targets for 2016 were ambitious, but were not achieved in full due to the growth of the larger companies' results being lower than budgeted. The Supervisory Board endorses the Management Board's policy of investing in product development, strengthening technical know-how, improving production capacity and reinforcing the market position. In 2016 the investments in tangible non-current assets were higher than the depreciation, a circumspect approach was taken in respect of changes in the workforce and all the companies focused on cost management and margin improvement. The report of the Management Board includes a detailed explanation of these topics.

In the opinion of the Supervisory Board, Hydratec's risk profile has not changed. No exceptional or unexpected set-backs occurred in 2016. It is encouraging that the different business activities managed to achieve satisfactory results. Attention was paid to the risk management system and did not bring forth any singularities. The Group Management Board and the Management Boards of the operating companies should be complimented for their

success in further developing the companies. In 2016 the Supervisory Board met twice with the external Auditor, on one occasion in the absence of the Management Board. In addition, during one meeting the Supervisory Board evaluated the functioning of the Management Board and its own Board in the absence of the Management Board. During this discussion nothing of a special nature came to light.

REMUNERATION POLICY

The Supervisory Board of Hydratec Industries NV applies a remuneration policy for the Company's Management Board that is based on the following principles:

- The Management Board remuneration policy must enable good managers to be recruited and retained.
- The remuneration policy must be in accordance with the Company's Corporate Governance policy.
- The remuneration must be compatible with the strategic and financial targets and be performance-oriented, whereby there should be a good balance between short-term and long-term results and/or targets.
- The remuneration may not include any incentives that are aimed at the recipients own interests and conflict with the interests of the Company.

The remuneration policy for Hydratec's Management Board is approved by the General Meeting of Shareholders. The actual remuneration of the Management Board is decided by the Supervisory Board. The salaries of the Board of Management members depend partly on the results and are awarded via a bonus scheme that is compiled as follows:

- The decision to award the bonus is made in March during the discussion of the annual figures.

- The bonus may be a maximum of 50% of the fixed salary.
- 30% of the maximum bonus is dependent on the achievement of personal targets aimed at the Company's long-term development and its awarding is at the discretion of the Supervisory Board.
- 70% of the maximum bonus is dependent on the operating profit, with a threshold. After the bonus is awarded the Management Board member may opt to convert half the awarded bonus into Hydratec shares. These shares will then be issued at the average price during January and February and may not be traded for three years.

Any termination recompense will comply with the stipulations of the Dutch Corporate Governance Code and will not, therefore, amount to more than one year's salary. There is a pension plan for Management Board members whereby above a threshold amount the member is expected to make a personal contribution. The Supervisory Board assesses the actual salary of the Management Board members in respect of the remuneration policy and, if necessary makes an adjustment. Changes to the salary policy are put before the General Meeting of Shareholders.

In mid 2015 the Supervisory Board determined the annual fixed salary of the Management Board members on the basis of the stipulations listed above. In addition it was agreed that the fixed salary would be indexed for inflation on a regular basis. Shares were awarded to the Management Board members in respect of the 2016 financial year. No loans were granted or termination recompense paid. The Supervisory Board has decided to award the members of the Management Board a bonus in

respect of the 2016 financial year that is partly based on the achieved operating profit.

The remuneration of the Supervisory Board is determined by the General Meeting of Shareholders. The remuneration of the Supervisory Board is not dependent on the results achieved by the Company. During the General Meeting of Shareholders on 20 May 2010 the remuneration of the Supervisory Board was fixed at € 19,000 per annum per member. This is in line with the Supervisory Board remuneration of comparable stock exchange listed companies. The members of the Supervisory Board are not paid any remuneration in the form of shares or share options.

COMPOSITION OF THE MANAGEMENT BOARD

There were no changes to the Management Board of Hydratec Industries NV during 2016. Mr. B.F. Aangenendt is CEO; Mr. M.C. van den Burg is CFO.

SUPERVISION AND MEETINGS

During 2016 the Supervisory Board held five scheduled meetings with the Management Board. Prior to the General Meeting of Shareholders on 31 May 2016 the Supervisory Board evaluated the functioning of the Management Board and its own Board in the absence of the Management Board.

During its meetings the Supervisory Board discussed the strategy, acquisition policy, risk management, quarterly and half-yearly results, 2016 annual figures and budget for 2017. The remuneration policy was also discussed as was the effects of the economic situation on the markets in which Hydratec companies are active and the measures

needed to mitigate these effects and maintain the profit level. Attention was also paid to amendments to legislation.

CORPORATE GOVERNANCE

The Supervisory Board endorses the objectives of the guidelines contained in the Dutch Corporate Governance Code for stock exchange listed companies. During the financial year Mr. E. ten Cate was the only member of the Board who did not meet the independence criteria as laid-down in paragraph III. 2.2, clause e of the Code. This element did not play any role in the consultation between the Supervisory Board members. No conflict of interest occurred during 2016. Hydratec also deviates from the Code in the following ways:

- Hydratec has no formal written code of conduct. We expect our managers and employees to act with integrity and employee assessments are, in part, based on their conduct in this respect (§ II.1.1).
- Due to the size of the Company and the related size of the Supervisory Board no specific committees have been formed within the Supervisory Board (§ III.5.1).
- Hydratec does not offer webcasts of presentations to investors and analysts (§ IV.3.1).
- During the financial year no explicit policy in respect of bilateral contact with shareholders (§ IV.3.13) was published on Hydratec's website.
- Hydratec believes that experience with and knowledge of the Company forms an important basis for the functioning of the Supervisory Board and should be a determining factor in respect of the length of a Supervisory Board member's term. For this reason no maximum term has been set for Supervisory Board members. At the end of every term a Supervisory Board

member may, after careful consideration,
be reappointed for a new term (§ III.3.5).

- In view of the Company's size no internal auditor has been appointed (§V.3.3).

The Code of Conduct has been implemented in all Hydratec companies.

IN CONCLUSION

The Supervisory Board is grateful to the Management Board, the management teams and all the employees for their efforts, dedication and ambition during 2016 and the results they achieved in this year.

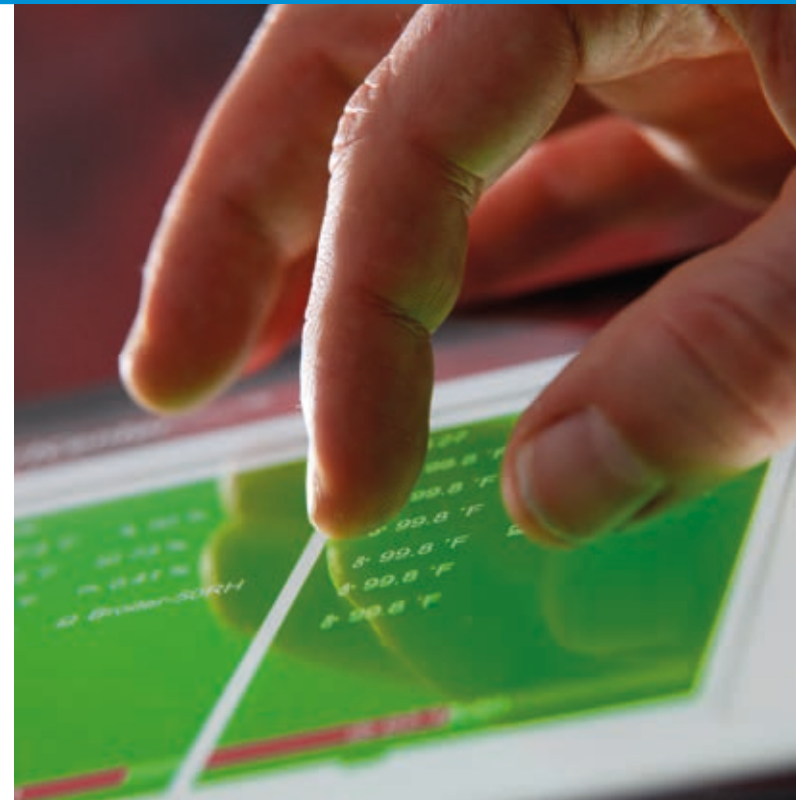
Amersfoort, 6 April 2017

Supervisory Board

E. ten Cate Chairman

H.A.A. Kienhuis Vice-chairman

J.E. Vaandrager



MEMBERS OF THE MANAGEMENT BOARD

B. (Bart) F. Aangenendt (1964)

Statutory Director

CEO

First appointed: 2012

Current term ends: 2020

M. (Mark) C. van den Burg RC (1969)

Statutory Director

CFO

First (honorary) appointment: 2012

First (statutory) appointment: 2015

Current term ends: 2019

All the members of the Management Board are Dutch nationals.



From left to right: M.C. van den Burg and B.F. Aangenendt

REPORT OF THE MANAGEMENT BOARD

GENERAL

The substantial increase of the revenue to € 162 million was due primarily to the Helvoet and ABAR acquisitions being consolidated for the whole of 2016. All the Hydratec Industries NV companies achieved a better result from normal business operations than in the previous year. A net profit for shareholders of € 5.9 million was achieved compared with € 3.1 million in 2015 (excluding € 7.7 million one-time income from the purchase of Helvoet and the sale of Euro Mouldings).

For Hydratec 2016 was dominated by the consolidation of the newly acquired activities of Helvoet and ABAR.

Helvoet's implementation of the Hydratec financial reporting system has increased the insight into its operations and further improved the decision making. In the Lommel (B) office in particular keen decisions regarding the activities being carried out were taken, which has reinforced the strategic focus. One decision was to sell the technology for the manufacture of plastic lenses, for which the revenue was only marginal. The sale resulted in a book profit of € 0.5 million (after taxes). The office in Munich (G) is relatively small and a reorientation is yet to be implemented there. In addition, the number of entities has been reduced by seven and Helvoet's central organisation has been simplified. These measures have led to positive results and have provided a good basis for the further streamlining of the organisation and the implementation of improvements. Organisationally ABAR has been integrated within Lan Handling Technologies.

FINANCIAL DEVELOPMENTS

At € 8.2 million the operating profit for 2016 was slightly higher than for the previous year (€ 7.8 million), but the figure for 2015 included net one-time income amounting to a substantial € 2.7 million. The operating profit within Agri & Food Systems was € 3.9 million – a considerable improvement on the € 1.0 million achieved in 2015. Plastic Components achieved operating profit of € 5.4 million compared with € 3.9 million in 2015.

Financial income and expenses

Financial liabilities amounted to € 1.3 million in 2016 compared to € 0.1 million in 2015. At the end of 2016 Hydratec's balance of cash and at bank was € 1.9 million (2015: € 8.2 million). At the end of 2016 both bank credit and debt were reduced by € 6.7 million (2015 € 0) through the cash pooling facilities. Interest bearing debts fell from € 17.6 million to € 16.2 million.

Fiscal effects

The effective tax rate in 2016 was 14.9% compared with 13.5% in 2015. This resulted in a tax payable of € 1.0 million (2015: € 1.0 million) in the profit and loss account. The relatively low tax rate was due to the application of the R&D facilities (including the innovation box), which reduce the tax payable as well as the utilisation of accrued compensable tax losses.

Net result

The 2016 net profit for shareholders amounted to € 5.9 million compared with € 6.4 million in 2015 (continued activities). However, the result for 2015 also included one-time income of € 2.7 million, which was the net of an impairment expense and the profit from an advantageous sale. In 2016 one-time income amounting to € 0.6 million was recognised. Corrected for these items, net result rose from € 3.7 million to € 5.3 million.

Cash flow

In 2016 operational cash flow amounted to € 5.8 million (continued activities 2015: € 6.2 million). Cash flow from investing activities amounted to € 8.1 million negative compared with € 13.2 million negative from continued activities in 2015. This figure for 2015 includes € 9.4 million related to the purchase of interests. Cash flow from financing activities amounted to € 0.5 million negative and concerned dividend pay-outs totalling € 1.7 million and a net inflow from the non-current loans amounting to € 1.2 million.

Balance sheet

Solvency rose from 35.6% in 2015 to 40.8%. The balance sheet total fell from € 120.2 million to € 118.5 million and shareholders' equity rose from € 42.8 million to € 48.4 million. The increased shareholders' equity was offset by a comparable decrease of the current liabilities. Tangible non-current assets rose from € 41.9 million to € 44.3 million. All of this increase concerned the Plastic

The development into a total supplier of integrated solutions is well under way.

Components segment which has a capital-intensive character. Netting of the bank facility and deferred tax receivables and liabilities contributed towards the reduced balance sheet.

Dividend proposal

Earnings per share amounted to € 4.72. Earnings per share in 2015 amounted to € 8.82 of which € 2.52 was related to the result from normal business operations and € 6.30 to one-time income.

It will be proposed to the General Meeting of Shareholders that a dividend of € 1.70 per share be paid out for the 2016 financial year (2015: € 1.37). This dividend distribution is in line with the policy of paying out at least 40% of the profit after taxes (excluding one-time income).

This sum will be paid in cash. The net result for 2016 will be added to the other reserves.

DEVELOPMENT OF CORE ACTIVITY AGRI & FOOD SYSTEMS

Pas Reform Hatchery Technologies and Lan Handling Technologies

The most important markets for Agri & Food Systems are the global poultry, convenience food and pet food markets. In 2016 the pet food and convenience food markets continued to develop positively while the global poultry market 'marked time'. The emerging markets in Asia and South America in particular lagged behind compared to previous years. Revenue from Europe and North America was higher than in other years. There are a number of

factors that affect the various markets' willingness to invest, including local legislation/subsidies, currency exchange rates, feed prices and regional poultry diseases. This is why a good spread across different countries and with a wide range of products is very important within Agri & Food Systems. At the same time, specialism and standardisation are needed in order to remain cost effective.

The implementation of Lean remains a high priority for the companies. This applies not only for the direct functions, such as production and assembly, but also for the indirect functions and even for our suppliers. During 2016 considerable attention was paid to continuous improvement of quality and the quality systems.

Harm Langen

Director Pas Reform Hatchery Technologies



How does Pas Reform respond to the increasing unpredictability of the international markets?

'Poultry production fluctuates globally. Some countries start producing for themselves, others are confronted with export bans or an outbreak of avian flu. We make sure we are well represented everywhere. This can be through a local presence, via agencies or via collaborations. We have agents on every continent and in nearly 50 countries.'

What were the most important changes at Pas Reform in 2016?

'We focus emphatically on integrated hatchery systems supply and after sales service. We help clients by configuring made-to-measure solutions using existing components and linked to central control software. After the equipment has been installed we sign service contracts for

maintenance, analysis and advice, which means our systems last longer and have fewer breakdowns and we share our know-how. In this way maintaining relationships and service provision go hand-in-hand.'

What makes Pas Reform a good company to work for?

'At Pas Reform there's a good, open atmosphere in which employees feel at home. The team is ambitious and involved and there is scope for individual initiative. The horizontal organisation ensures short lines of communication, which means decisions can be taken quickly.'

Special attention was also paid to strengthening product management so good choices are made when it comes to developing products that will offer existing clients additional functions. The transition from machine builder to supplier of integrated total solution systems based on standardised technology is under way. One example of this is the integration of Abar within Lan Handling Technologies that took place during 2016.

Abar's technological know-how and specific application expertise within the food industry are an excellent addition to Lan's current activities.

During 2016 the commercial network was also expanded with the addition of a number of new agents and we succeeded in generating revenue and winning new clients

in new countries. The organisation in general was made both more professional and, through partnerships, more flexible.

x € 1,000	2016	2015
Revenue	61,161	57,092
Gross margin	26,945	22,596
Depreciation and amortisation	995	922
Investments	774	568
Operating profit	3,936	976
Number of FTEs at year end	201	194

In 2016 Agri & Food Systems' revenue rose slightly, mainly due to the acquisition of Abar in the middle of 2015. Supplying more standardised products to existing clients resulted in a clear increase in the gross margin from 40% to 44%. Investments within Agri & Food Systems were higher than in 2015 and to a great extent were related to ICT improvements, such as the use of barcodes, shop-floor control systems and Product Data Management systems. The operating profit of € 3.9 million amounted to 6.4% of revenue - a substantial increase compared with 2015. In the United States the NatureForm Hatchery Technologies joint venture achieved revenue of € 5.0 million with a break-even net result. It is anticipated that chicken consumption will increase world wide and the production

Kees van de Wiel

Director Lan Handling Technologies



Lan has an increasingly wide circle of clients, how do you respond to your clients' different needs?

'We offer added-value by, in close collaboration with clients, designing and building innovative machines and systems that make their automated production processes run efficiently. This keeps their total cost of ownership low. We offer this added-value in three markets - the handling of packaged products in sterilisation processes, end of line automation solutions for the food processing and packaging industry and hatchery automation.'

What were the most important changes at Lan Handling Technologies in 2016?

'The number of clients in the end of line automation solution segment increased, while we won a larger share in the market for product handling in sterilisation processes. We have packaged pet food for one of our key accounts for many years, now we have also successfully installed two handling systems for products that are suitable for human

consumption. Taking all the worries off our clients' shoulders is top of our priorities list.'

Why do qualified and motivated employees opt to work for Lan Handling Technologies?

'We offer them high-level technological challenges and encourage innovative thinking. With projects at leading companies around the world we offer our employees unique development opportunities. Quality is important for our employees and for Lan. The fact that in just six months we were granted ISO 9001:2015 certification without a single condition is proof of the quality-minded attitude within Lan.'

of convenience food and pet food will also make further growth. Food safety will be the key issue, which means transparency and, therefore, data management will play an increasingly major role. As our clients continue to up-scale automation, mechanisation and the offering of total solutions will become more and more important. Agri & Food Systems' order intake during the second half of 2016 was very encouraging.

DEVELOPMENT OF CORE ACTIVITY PLASTIC COMPONENTS

Helvoet Rubber & Plastics Technologies and Timmerijje

The Plastic Components core activity has a number of high-quality production technologies at its command, such as the injection moulding of thermoplast and

thermoset products and the possibility of binding its own rubber compounds and metals to these plastics. One very important technology is the fully-automated and robot and vision-technology assisted assembly of these components into functional modules.

The most important markets for Plastic Components are Automotive, Health Tech and Agri & Food. The largest of these markets – the Automotive market – generates around 40% of Plastic Components' revenue. In the years after the crisis the growth of automobile sales accelerated on several continents.

To achieve further growth within Plastic Components, sales and marketing efforts have been intensified so that potential clients can be made more aware of the available specific application expertise. Sustainability aspects are

becoming increasingly important in all markets and in response to this relatively heavy metal components are being replaced with lightweight plastic components with a greater degree of construction freedom.

In addition, there is a continuous search for possibilities to reduce waste production. A sharper focus on process quality is reducing waste still further and improving the predictability of product quality.

The re-use of plastic is also being intensified. This leads not only to potential cost benefits but also to a more sustainable use of the raw materials. Because Plastic Components operates in a competitive market, cost reduction has a high priority and there is a constant focus on Lean production. Plastic Components has also invested heavily in low manpower production. This means,

Erik de Jonge

Director Helvoet



How does Helvoet respond to the increasingly-rapid changes in the Automotive and Health Tech markets?

'We adjust our organisation to the market, both geographically and in terms of competencies. There is a need for teams in which all the specialisms required for an order are represented. Our clients, many of which are multinationals, also work in this way. We have metamorphosed from a traditional, hierarchical organisation into a project-oriented organisation. The automotive -industry manufactures all over the world; and we follow them. The Health Tech market is traditionally averse to risks. Projects often take seven to nine years and involve high validation costs. Helvoet is often involved with the development of prototypes during the final four years of such a project. The production facilities must meet stringent demands, such as working in clean rooms. In this market segment we focus solely on Europe.'

What were the most important changes at Helvoet in 2016?

'In 2016 we focused on strengthening the organisation and employees: competencies, self-steering teams and having the right man, or woman, in the right place. Secondly we made further improvements to the quality and efficiency of the production processes. Finally we also optimised the organisation geographically: we paid a lot of attention to what we do where. As a result we reinforced our collaboration in Poland and expanded our organisation in India.'

Are you able to recruit and retain enough qualified and motivated employees?

'In the Netherlands and Belgium finding highly-educated engineers is very difficult, and the same applies for lower positions. In India and Poland it's still much easier. This means that retaining good, competent people is essential. We offer employees (technological) challenges, flexibility and freedom, including when it comes to the working/private life balance.'

REPORT OF THE MANAGEMENT BOARD

for example, that smaller series can also be assembled automatically on Helvoet's new Flex-line.

x € 1,000	2016	2015
Revenue	102,089	57,314
Gross margin	58,203	34,236
Depreciation and amortisation	4,547	2,620
Investments	7,716	3,085
Operating profit	5,354	3,864
Number of FTEs at year end	593	581

The substantial increase in Plastic Components' revenue was due primarily to the addition of Helvoet's revenue for the entire year (in 2015 added for only half the year).

Organic growth of 3% was also achieved. Gross margin amounted to 57%, virtually the same as in 2015. The higher operating profit of € 5.4 million, 5.2% of revenue, was due mainly to the increase in revenue. In 2016 investments at both Helvoet and Timmerije were higher than in 2015 and higher than depreciation and amortisation. The investments included new injection moulding machines both for replacements and expansion. These new machines enable advanced injection moulding processes for complex products to be carried out in an energy-efficient way. Another investment was a new, less labour-intensive, rubber press with material-saving technology. To be able to offer clients more and more post-processing finishing, in addition to the Flex-line the investments included lapping equipment, a pocket grinder

and a printing unit. Timmerije also invested in a Manufacturing Execution System (MES) to enable process management to be improved. This has led to a further reduction of waste and a more predictable product quality. Plastic Components is focusing more sharply of the acquisition of new clients in niche markets by offering specific applications based on four core technologies: thermoplast and thermoset injection moulding, rubber technology and automated assembly processes.

Wim Simons

Director Timmerije



How does Timmerije respond to the increasingly-rapid changing needs of its clients?

'We listen carefully to what our clients want, but don't just do it blindly without thinking. Our expertise enables us to give them good advice. We have the know-how to develop machines and systems ourselves. We have also invested in a Manufacturing Execution System (MES) that is linked to our ERP system and used to manage and monitor production. This is a good example of Smart Industry: new production technologies combined with the further integration of ICT in the entire design and manufacture process.'

What were the most important changes at Timmerije in 2016?

'We were able to record a lot of new orders. We also made great progress with reducing waste and wastage through failures. Thanks to our clients, in 2016 we were voted the 2nd best knowledge supplier.

By working closely together and continuously going a step further we are maintaining our position as a top technology leader.'

What do you look for when selecting new employees?

'We have an active personnel policy in which our assessment and performance system plays a major role. New employees must have the right no-nonsense attitude and be motivated. We take care of practical training ourselves and focus primarily on young people who aspire to becoming a professional specialist. We also recruit proactively in the higher education institutions. Finally, we offer work experience or graduate internship places at every level and give guest lectures and Colleges and technical Universities.'

Long-term success depends primarily on the motivated efforts of employees and clients' appreciation of these efforts.

PERSONNEL AND ORGANISATION

Personnel policy per operating company

The long-term success of a company is dependent on the motivated efforts of its employees and its clients' appreciation of these efforts. As a principle we strive for strong local organisations with a high degree of entrepreneurship and a sense of responsibility for all business processes. The personnel policy is implemented at the operating company level. At this level attention is paid to safety, accident prevention and absenteeism through sickness, but above all to the creation and maintenance of a loyal organisation with flexibility and ambition. Within every company there is regular and constructive consultation with the local Works Council. The central Management Board participates in this consultation at least once a year. In 2016 we succeeded in recruiting many new talented employees.

The workforce at the end of 2016 rose to 797 FTEs (end of 2015: 777 FTEs) of which 322 FTEs worked abroad including 150 at the Helvoet facility in India and 129 in Belgium.

Health, safety and the environment

A focus on good, and above all safe, working conditions is vital for maintaining a consistently-controlled and high-quality production process. Paying constant attention to employees, and in particular their working conditions, is a key factor for all the companies. Not only to minimise

absenteeism through sickness but also to guarantee maximum safety within the production processes. Programmes aimed at introducing continuous improvement are in place at, and implemented by the employees of, every Hydratec company. Virtually every industrial process involves environmental risks.

Limiting these risks is an extremely important area of attention for the management teams. Environmental risk assessments are, therefore, carried out at the production facilities on a regular basis and, if necessary, lead to the immediate implementation of measures and procedures to reduce the risks still further. Increasingly the processes are also checked for possibilities to improve the sustainability of our products and/or production processes. This aspect is becoming more and more important because our clients are also specifying increasingly stringent requirements in this context.

RISK MANAGEMENT

General

Hydratec stimulates local entrepreneurship within its operating companies and realises that, as a consequence, a balance must be found between this entrepreneurship and the management of risks. A good risk management system is, therefore, extremely important. Making risks visible enables measures to manage them to be implemented. The intention is not to avoid all risks – taking risks is an intrinsic aspect of doing business. The approach

is aimed at preventing surprises. What is clear is that no risk management system, however professional, can guarantee a company's targets are achieved or totally prevent major mistakes being made, fraudulent activities being carried out or, for example, non-compliance with (local) legislation.

Within Hydratec risks are categorised as strategic, operational or financial.

Strategic

Growth target

The steady growth of its revenue and results is at the core of Hydratec's strategy. We endeavour to achieve this primarily through the organic growth of every one of the companies. This can be either through expanding market positions or by broadening the product offering. We believe that continuous growth is necessary for healthy business development and we stimulate our companies to improve their competitive positions by achieving product improvements and innovations. These product developments are based primarily on identified concrete requirements of clients and potential clients. Hydratec also endeavours to strengthen its companies' market positions, gain synergy advantages and gradually expand its revenue and geographical area of operations through acquisitions. Hydratec also remains alert for opportunities in industrial sectors in which it is not yet active. This can mean that Hydratec acquires activities in new markets in which it does not have a proven track record of experience and/or expertise. This growth strategy may require investments that cannot always be financed from the Company's resources and available credit facilities and may necessitate calling on the capital market and/or shareholders. Maintaining a strong solvency ratio is, therefore, an important basis for Hydratec's continuity.

Market positioning

As far as the Agri & Food Equipment companies are concerned, the top-10 countries are responsible for 65% of the total revenue. In 2016 the United States generated the largest share of the revenue (16%). Russia (12%) and the United Kingdom (11%) also generated a significant portion of the revenue. Each of the remaining countries generated less than 10% of the revenue. The share of revenue can fluctuate substantially per country per year. Large project orders can also create major fluctuations in the Agri & Food Systems companies' revenue and results. Even after a contract for a project has been signed the client can postpone the actual deliveries for a considerable length of time. Because the major portion of the production of the components for the machines is contracted-out to sub-contractors, this risk is, to a degree, shifted to these sub-contractors.

Although the Plastics companies' top-10 clients account for around 57% of the total revenue, the largest client accounts for less than 10%. If a large client terminates its relationship with the company the loss of revenue cannot be offset immediately. But in view of the fact that such client relationships involve a wide range of products, should a client relationship be terminated the actual loss of revenue would also be gradual.

The Hydratec companies are active worldwide and recognise the risks that can be coupled with sanctioned countries, people and products. Changes to the relevant regulations are followed very closely and form a component of the sales process.

Every year the strategic market positions and options are evaluated per company, in part in the light of the achieved results. This evaluation forms the basis for decisions

regarding long-term investments and product-market development priorities.

Operational

Product liability and manufacturing risks

Within the Hydratec companies many different production processes are carried out. The resulting increased risk of human error and incidental manufacturing faults can lead to a loss of product quality and the disruption of the manufacturing process. The Hydratec companies also carry out a considerable amount of product development, which means there is a risk of design faults. This can lead to relatively high costs for clients, who will endeavour to be recompensed by their supplier. All the companies implement strict quality standards and carry out Risk Inventories and Evaluations (RIE). All the companies are ISO certificated or comply with an ISO-based quality system. Although all the companies are insured against product liability this does not guarantee cover in every case. At all the companies manufacture sometimes involves the use of a specific machine, the breakdown of this machine would cause production risks.

Suppliers

The Agri & Food Systems companies use a large mix of suppliers: Eastern European companies for the more mass-produced products and companies in the region for specific components and smaller quantities. The largest supplier (< 10% of the purchase volume) is based in the Czech Republic.

The Plastic Components companies purchase raw materials that are used on a global scale by many plastic companies. Although only a relatively few extremely large global suppliers operate in these raw materials production markets, the (lack of) availability of these raw materials does not constitute a real risk.

Environmental risks

The manufacturing and processing of plastic products goes hand-in-hand with environmental risks. Limiting these risks is a key issue for the Hydratec companies which must, at all times, focus on the environmental aspects relevant to their operations and the prevention of calamities. The current situation and the related (financial) risks at the production facilities are evaluated and recorded on a regular basis.

The aim of the evaluations is not only to ensure compliance with environmental legislation, but also to assess what preventative measures can be implemented.

The recognised environmental risks are, when necessary, translated into concrete action plans. The effectiveness of the implemented measures is checked continuously in order to limit the risks as far as possible. In addition to the preventative measures, Hydratec's policy is also aimed at reducing the total environmental impact. Developments that can lead to improved environmental care will continue to be closely monitored in the future.

Automation

Hydratec strives to achieve production efficiency and logistics advantages, for example through far-reaching automation. Its success is increasingly dependent on the timely and correct implementation and extension and/or good functioning of automation systems. This makes the organisation very dependent on the proper functioning of these systems. ICT systems that do not function properly, or do not function at all, could threaten the continuity of business operations within a relatively short space of time. All the companies follow stringent procedures that ensure that, in the case of a system fault or failure, they have back-up systems and can access the most recent data.

A growing world population and increasing welfare means the Hydratec companies are well positioned.

Financial

Hydratec's annual accounts have been prepared in accordance with IFRS. The Notes to the consolidated annual accounts on pages 41 to 68 of the official Dutch 2016 annual report describe a number of financial risks to which Hydratec is exposed. These risks include capital, market, raw materials prices, currency, interest rate, solvency and credit risks. The annual accounts section also includes a sensitivity analysis related to several of these risk factors. These risks are not exceptional and, in our opinion, go hand-in-hand with the nature of our business activities.

CORPORATE GOVERNANCE STATEMENT

An ISO 26.000-based Code of Conduct in respect of issues such as good management, human rights, working conditions, business integrity and environment protection has been implemented in the various Hydratec companies. The Supervisory Board and Management Board endorse the principles of Corporate Governance and Hydratec Industries NV complies with the provisions laid down in the Dutch Corporate Governance Code.

Key concepts such as transparency and the accountability to and participation of the shareholders form the basis of our policy.

We do, however, deem some of the guidelines to be irrelevant for a SmallCap company. For example, in view of the Company's size and the fact that its Supervisory Board has less than four members, no committees have been

formed. The points on which Hydratec deviates from the Code and the reasons why are listed, per section of the Code, on the Corporate Governance page of the Company's website. In view of Hydratec's international growth and the risks of fraud that can go hand-in-hand with such growth, in 2016 a whistle-blower's regulation was implemented.

The reporting systems used within the Hydratec companies and the regular reports to the Management Board are of major importance. A Planning & Control Cycle has been defined for these reports and an accounting manual produced. Revenue and order inflow are reported weekly. Monthly reports include the most important financial and operational components, such as revenue, gross margin, operating costs, operating profits, orders received, working capital components, personnel summaries and investments. These reports form the basis for monthly meetings between the Management Board and the operating company managements as well as for the consolidated summaries that are also evaluated by the Supervisory Board. The local managements also prepare quarterly reports which include an explanation of organisational developments as well as of market and product developments.

Hydratec has a two-tier regime and has issued only ordinary shares. No special control rights are linked to shares.

At least once a year a General Meeting of Shareholders is organised during which all the resolutions are approved on the basis of the 'one share, one vote' principle. Shareholders who, either individually or jointly, hold at least 3% of the issued shares are entitled to ask the Management Board or Supervisory Board to add particular topics to the agenda. Important Board resolutions that could result in a change to the Company's identity or character must be approved by the General Meeting of Shareholders. The Company's Articles of Association are published on the Company's website as are the main tasks and authorities of the General Meeting of Shareholders as well as of the Supervisory Board and the Management Board.

The Articles of Association (published on the website) also include the regulations in respect of the appointment and dismissal of Management Board and Supervisory Board members and changes to the Articles of Association. Shareholders holding an interest of over 3%, and must therefore be disclosed to comply with the Disclosure of Major Holdings Act, are listed on page 16.

IN CONCLUSION

In control statement

Hydratec's Management Board is of the opinion that the risk management and control systems provide a reasonable level of assurance that the financial reporting does not contain any material misstatements. These risk management and control systems functioned properly during the year under review and there are no indications that they will not function properly during the current year. The process of refining the management and control systems has been, and will continue to be, evaluated on a continuous basis.

REPORT OF THE MANAGEMENT BOARD

Hydratec's Management Board declares that, to the best of its knowledge, the 2016 annual accounts provide a fair and accurate picture of the assets, liabilities, financial position and profits of the Company and the companies jointly included in the consolidated annual accounts. The annual report provides a fair and accurate picture of the situation as at the balance sheet date and the business development during the financial year of the Company and the affiliated companies for which the data is included in the annual accounts. The annual report describes the actual risks with which the Company is confronted.

Outlook and expectations for 2017

During the past years we noticed that the uncertain macro-economic conditions were affecting the demand for our companies' products. Even so our companies proved themselves capable of acquiring new orders from both existing and new clients and achieving revenue growth with these orders. We deem it too early to make a definite statement regarding the possible result for 2017.

A word of thanks

We would like to compliment all our colleagues for their considerable efforts during the past year. Such commitment enables all of us to achieve our goals. We would also like to thank our clients, partners and shareholders for their trust.

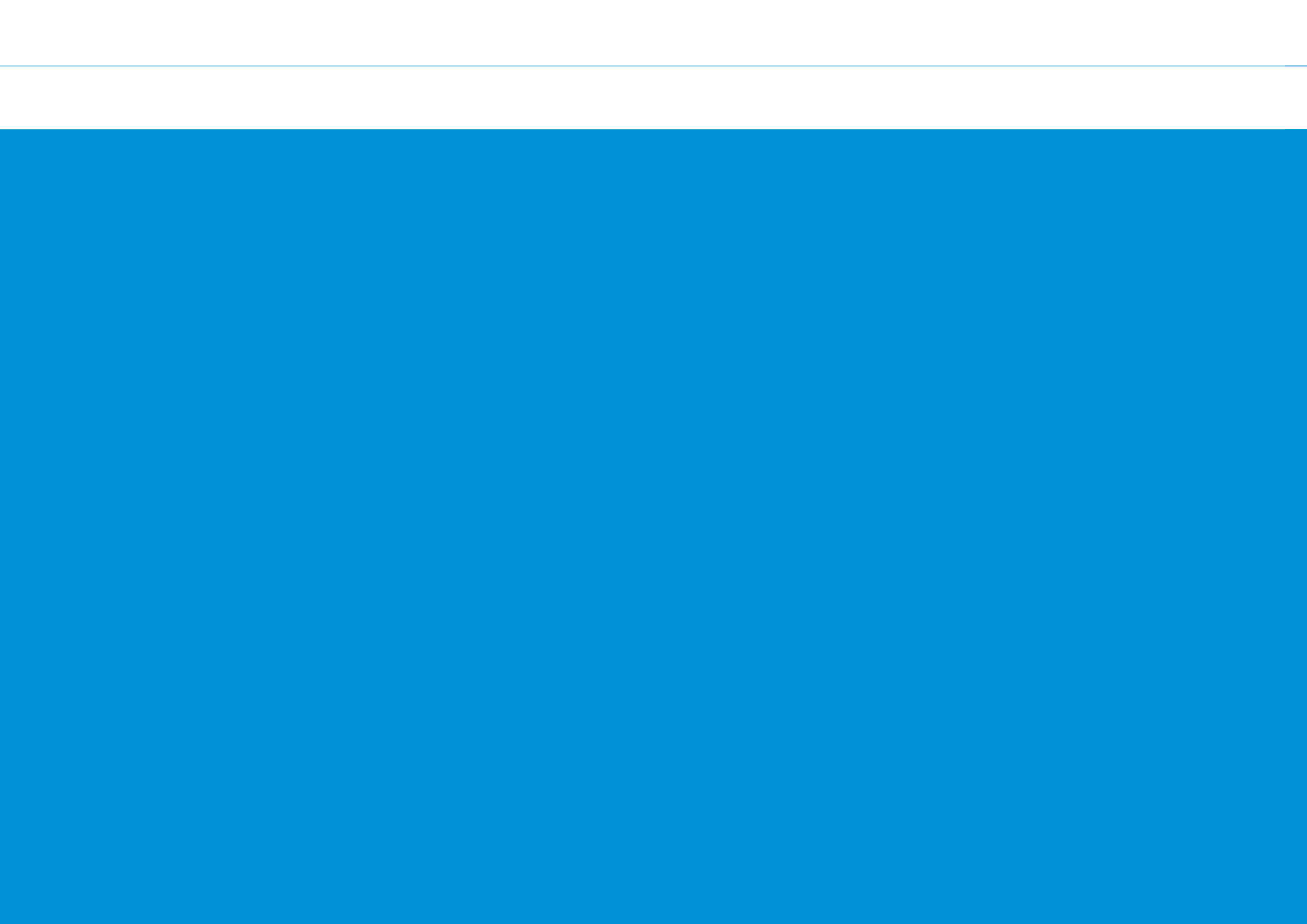
Amersfoort, 6 April 2017

Management Board

B.F. Aangenendt CEO

M.C. van den Burg CFO





SUMMARISED ANNUAL ACCOUNTS

Consolidated profit and loss account	34
Consolidated summary of comprehensive income	35
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Consolidated statement of changes in equity	38
Consolidated cash flow statement	39



CONSOLIDATED PROFIT AND LOSS ACCOUNT

x € 1,000	2016		2015	
Net revenue		162,374		113,437
Material usage		77,226		56,605
Gross margin		<u>85,148</u>		<u>56,832</u>
Wages and salaries	35,447		23,829	
Social security premiums and pensions	8,870		5,778	
Depreciation and amortisation of non-current assets	5,542		3,475	
Other operating costs	<u>27,919</u>		<u>18,652</u>	
		77,778		51,734
Extraordinary income and expenses		<u>801</u>		<u>2,732</u>
Operating profit		8,171		7,830
Financial income and expenses		<u>1,269</u>		<u>148</u>
Result before taxes		6,902		7,682
Taxes		1,031		1,040
Result from non-consolidated interests		11		234
Net result from continued activities		<u>5,882</u>		<u>6,876</u>
Net result from discontinued activities				4,690
Net result		<u>5,882</u>		<u>11,566</u>
Net result attributable to:				
Shareholders in continued activities		5,882		6,367
Shareholders in discontinued activities				4,417
Minority interests				782
		<u>5,882</u>		<u>11,566</u>
Weighted average number of shares		1,246,886		1,222,143
			Continued activities	Discontinued activities
Earnings per ordinary share (in euro)		4.72	5.21	3.61
Diluted earnings per ordinary share (in euro)		<u>4.71</u>	<u>5.21</u>	<u>3.61</u>

CONSOLIDATED SUMMARY OF COMPREHENSIVE INCOME

x € 1,000	2016	2015
Net result	5,882	11,566
Components that may be recognised in the result in the future		
Result of hedge on financial derivatives	– 120	– 2
Currency translation differences	<u>– 423</u>	<u>60</u>
Total not-achieved result	– 543	58
Total result after taxes	<u>5,339</u>	<u>11,624</u>
Total result after taxes of continued activities	5,339	6,948
Total result after taxes of discontinued activities	<u> </u>	<u>4,676</u>
Total result attributable to:		
Shareholders	5,339	10,846
Minority interests	<u> </u>	<u>778</u>
	<u>5,339</u>	<u>11,624</u>

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER before incorporation of the result

x € 1,000	2016	2015
ASSETS		
Intangible non-current assets	17,570	17,798
Tangible non-current assets	44,279	41,942
Non-consolidated interests	295	276
Deferred tax asset	308	2,261
Other financial non-current assets	370	245
Total non-current assets	<u>62,822</u>	<u>62,522</u>
Stocks	20,137	18,951
Trade debtors	26,862	23,044
Corporation tax	597	547
Other taxes and social security premiums	1,642	2,368
Other receivables	3,529	3,840
Accrued assets	960	661
Cash and cash equivalents	1,914	8,245
Total current assets	<u>55,641</u>	<u>57,656</u>
Total assets	<u>118,463</u>	<u>120,178</u>

x € 1,000

	2016	2015
LIABILITIES		
Shareholders' equity attributable to Hydratec shareholders	48,390	42,791
Shareholders' equity	<u>48,390</u>	<u>42,791</u>
Personnel-related provisions	1,348	1,632
Other provisions	4,292	2,985
Deferred tax liabilities	1,286	4,551
Non-current liabilities	13,056	12,831
Other financial instruments	604	646
Total provisions and non-current liabilities	<u>20,586</u>	<u>22,645</u>
Trade creditors	18,031	17,514
Corporation tax	704	144
Other taxes and social security premiums	2,165	2,832
Owed to banks	2,526	4,155
Other debts and accrued liabilities	26,061	30,097
Total current liabilities	<u>49,487</u>	<u>54,742</u>
Total liabilities	<u>118,463</u>	<u>120,178</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

x € 1,000	Issued capital	Agio	Translation reserve	Hedge reserve	Other reserves	Un-distributed result	Attributable to Hydratec shareholders	Attributable to minority shareholders	Shareholders equity
Book value as at 1 January 2015	550	3,418	0	- 57	25,044	6,873	35,828	2,452	38,280
Shareholder related changes:									
• Dividend distribution 2014					- 1,674		- 1,674		- 1,674
• Dividend minority shareholders								- 621	- 621
• Put-option Lias / Lan					- 1,799		- 1,799	- 57	- 1,856
Other changes:									
• Result appropriation 2014					6,873	- 6,873	0		0
• Consolidation of Helvoet				- 426	426		0		
• Acquisition of remaining interest in Timmerije				- 7	- 393		- 400	- 1,100	- 1,500
• Deconsolidation of Euro Mouldings				14	- 14			- 1,462	- 1,462
Unrealised results									
Value difference interest rate swaps				- 8			- 8	6	- 2
Realised results									
Result 2015 continued activities						6,367	6,367	509	6,876
Result 2015 discontinued activities						4,417	4,417	273	4,690
Currency translation differences foreign participations			60				60		60
Book value as at 31 December 2015	550	3,418	60	- 484	28,463	10,784	42,791	0	42,791
Shareholder related changes:									
• Dividend distribution 2015					- 1,674		- 1,674		
• Share issue Remaining payment acquisition of Lias Industries	22	1,684					1,706		
• Share issue Participation Plan	1	75					76		
Other changes:									
• Result appropriation 2015					10,784	- 10,784			
Unrealised results									
Value difference interest rate swaps				- 120			- 120		
Realised results									
Result 2016						5,882	5,882		
Currency translation differences foreign participations			- 423		152		- 271		
Book value as at 31 December 2016	573	5,177	- 363	- 604	37,725	5,882	48,390		

CONSOLIDATED CASH FLOW STATEMENT

x € 1,000	2016	2015 Continued activities	2015 Discontinued activities	2015 Total
Result from normal business operations before taxes	6,902	7,682	5,037	12,719
Adjusted for:				
• Depreciation and amortisation	5,542	3,475	846	4,321
• Impairment / profit from advantageous sale of companies	– 101	– 2,732		– 2,732
• Book profit/loss on sale of non-current assets			– 3,599	– 3,599
Financial income and expenses	1,269	148	87	235
Changes in provisions	798	– 2,554	– 12	– 2,566
Changes in working capital:				
• Stocks	– 1,106	– 910	– 23	– 933
• Current receivables	– 3,050	– 1,087	– 874	– 1,961
• Current liabilities	– 2,356	3,233	349	3,582
	– 6,512	1,236	– 548	688
Financial income and expenses (net)	– 1,437	– 208	– 78	– 286
Profit tax paid	– 701	– 895	– 335	– 1,230
Cash flow from operating activities	5,760	6,152	1,398	7,550
Investment in intangible non-current assets	– 103	– 41		– 41
Investments in tangible non-current assets	– 8,138	– 3,610	– 807	– 4,417
Investments in financial non-current assets	156	– 153		– 153
Purchase of interest in Helvoet		– 10,600		– 10,600
Purchase of interest in Abar		– 2,500		– 2,500
Sale of interest in Euro Mouldings			10,000	10,000
Cash and cash equivalents in discontinued activities			277	277
Incorporated net cash position related to purchase and sale of interests		3,691		3,691
Cash flow from investment activities	– 8,085	– 13,213	9,470	– 3,743

x € 1,000	2016	2015 Continued activities	2015 Discontinued activities	2015 Total
Dividend paid to Hydratec shareholders	- 1,674	- 1,674		- 1,674
Third party dividends (Plastic Components / Agri & Food Systems)		- 621		- 621
Repayment of non-current liabilities	- 1,026	- 6,136	- 211	- 6,347
Non-current borrowings	2,176	687		687
Buy-out of third parties in Timmerije		- 1,500		- 1,500
Cash flow from financing activities	<u>- 524</u>	<u>- 9,244</u>	<u>- 211</u>	<u>- 9,455</u>
Net cash flow	<u>- 2,849</u>	<u>- 16,305</u>	<u>10,657</u>	<u>- 5,648</u>
Currency translation differences	- 260	92		92
Change in cash and cash equivalents	<u>- 3,109</u>	<u>- 16,213</u>	<u>10,657</u>	<u>- 5,556</u>
Cash and cash equivalents as at 1 January	<u>4,459</u>			<u>10,015</u>
Cash and cash equivalents as at 31 December	<u>1,350</u>			<u>4,459</u>
Cash and cash equivalents				
Cash and at bank	8,245			11,507
Current account bank	<u>- 3,786</u>			<u>- 1,492</u>
Total 1 January	<u>4,459</u>			<u>10,015</u>
Cash and at bank	1,914			8,245
Current account bank	<u>- 564</u>			<u>- 3,786</u>
Total 31 December	<u>1,350</u>			<u>4,459</u>

INDEPENDENT AUDITOR'S REPORT

With regard to the independent auditor's report we refer to page 74 to 79 of the official Dutch 2016 annual report, which is available on www.hydratec.nl/investor-relations.

FIVE YEAR SUMMARY

Amounts in thousands of euro unless stated otherwise

	2016	2015	2014	2013	2012
Profit and loss account					
Net revenue	162,374	113,437	91,598	110,064	119,997
Operating profit	8,171	7,830	6,224	6,958	7,071
Net profit	5,882	6,876	3,566	4,178	4,695
Net profit to be allocated to shareholders	5,882	10,784	6,873	4,178	4,695
Cash flow					
Cash flow from operating activities	5,760	7,550	9,383	4,207	9,814
Cash flow from investing activities	-8,085	-3,743	7,868	-5,489	-4,451
Cash flow from financing activities	-524	-9,455	-3,718	-2,255	-1,687
Net cash flow	-2,849	-5,648	13,532	-3,537	3,676
Balance sheet					
Equity attributable to Hydratec shareholders	48,390	42,791	35,828	30,420	28,403
Group equity	48,390	42,791	38,280	32,507	30,442
Balance sheet total	118,463	120,178	77,725	83,995	85,572

Amounts in thousands of euro unless stated otherwise

	2016	2015	2014	2013	2012
Key ratios					
Operating profit as a % of revenue	5.0%	6.9%	6.8%	6.3%	5.9%
Return on invested capital ¹	9.5%	5.3%	11.9%	9.9%	11.7%
Return on shareholders' equity ²	11.7%	7.9%	12.3%	14.2%	17.7%
Solvency ³	40.8%	35.6%	49.3%	38.7%	35.6%
Information per ordinary share (in euro)					
Operating profit ⁴	6.55	6.41	5.09	5.26	5.79
Equity attributable to Hydratec shareholders	38.81	35.01	29.32	24.89	23.24
Profit per share continued activities	4.72	5.21	2.91	3.42	3.84
Profit per share including discontinued activities	4.72	8.82	5.62	3.42	3.84
Profit per share excluding one-time income	4.27	2.52	3.34	3.42	3.84
Dividend	1.70	1.37	1.37	1.37	1.55
Price at year end	44.30	32.00	31.65	22.73	21.00
Lowest price	30.35	30.77	24.30	21.00	17.00
Highest price	48.00	36.60	34.95	26.00	25.80
Other information					
Average number of employees	788	519	318	469	474
Net revenue per employee	206.1	218.6	288.0	234.7	253.2
Salary costs per employee	56.3	57.0	58.4	51.7	49.1

¹ Net result excluding one-time income + interest expense as a % of the invested capital (total assets minus cash and cash equivalents minus current non-interest-bearing liabilities).

² Net result excluding one-time income as a % of the average shareholders' equity attributable to Hydratec's shareholders.

³ Shareholders' equity as a % of the balance sheet total.

⁴ Continued activities.

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