



# ANNUAL REPORT 2018





**Hydratec Industries NV**

Nijverheidsweg Noord 59B  
3812 PK Amersfoort  
The Netherlands

Telephone: +31 (0)33 469 73 25

E-mail: [info@hydratec.nl](mailto:info@hydratec.nl)

Internet: [www.hydratec.nl](http://www.hydratec.nl)

Registered office in Amersfoort.

Chamber of Commerce (Amersfoort) number 23073095.

**Disclaimer**

This international Annual Report 2018 serves as an indicative and shortened version of the official Dutch Annual Report 2018, which is published on the Company's website [www.hydratec.nl](http://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,

2018 was an eventful year for Hydratec Industries NV. Although it started well in all markets the automotive industry ended the year on a down note – in China, for example, fewer cars were sold in 2018 than in 2017. We are living in an unsettled world. Globalisation is rearing its head, including in the form of an impending trade war and the UK's withdrawal from the EU. This makes having a local presence in the various markets increasingly important.

Hydratec achieved a growth of 23% of which 15% was organic. Despite all the one-time items we were able to increase our profitability by 19%. The Agri & Food Systems core activity in particular achieved substantially improved results. The results of the Plastic Components activity were disappointing due to the reticence in the automotive market.

During the year we added three smaller companies to our technology company. The two companies in Poland will serve to strengthen the competitive position of our Plastic Components activity. The acquisition of NatureForm (USA) dovetails perfectly with our ambition to become a major player in the large USA poultry market and we are already seeing results – we have won large orders from attractive clients.

The current market is not favourable for larger acquisitions. Plenty of relatively cheap money is available and this means the prices of interesting companies are on the high side at the moment and there is a lot of competition.

In November 2018 Everien Slijkhuis joined Hydratec's Board of Management. We have noticed how she, with her fresh view, can make a significant contribution towards the Company's further development. In a time in which the next technological development is following ever more closely on the heels of the last, we will have to keep adapting to changing circumstances. Strategic flexibility is crucial for Hydratec. Our organisational structure, with relatively-independent operating companies that are close to the market, offers a good framework for this dynamism. Sustainability is a key prerequisite for growth in the various markets. Reduced raw material usage, lower product weights, reduced energy consumption, lower feed

conversion, animal welfare and more (chain) transparency are playing an increasingly important role.

We are very aware that our company's long-term success depends first and foremost on the dedicated efforts of our employees and our clients' appreciation of these efforts. This means that we will only be successful if we simultaneously serve the short and long-term interests of our employees, our clients and our shareholders.

I would like to thank all our colleagues for their hard work during the past year. Only with this commitment will we be able to together achieve results.

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 technology company specialised in industrial systems and components, with a focus on the Food, Mobility and Health markets.



Stock exchange listed since 1997



Around 1,500 employees (FTEs)

## 3 MARKETS



Food



Mobility



Health

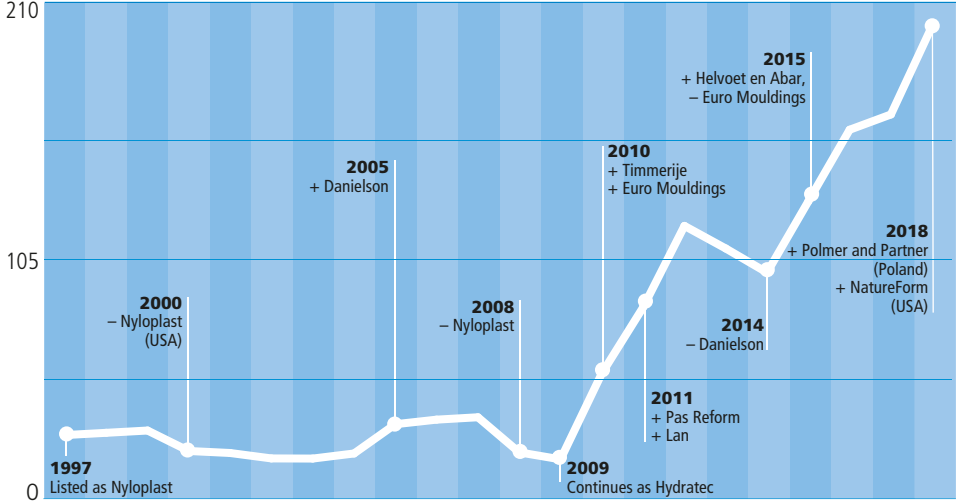
## 2 CORE ACTIVITIES

Agri & Food Systems

Plastic Components

## 4 COMPANIES

## MILESTONES IN NET REVENUE (X 1 MLN.)



## A PRESENCE IN 12 COUNTRIES

12 COUNTRIES  
Manufacturing and service centres





**Pas Reform**  
**Hatchery Technologies**

The recent launch of SmartStart™ is an example of the development of sustainable, innovative solutions.



## AGRI & FOOD SYSTEMS **PAS REFORM HATCHERY TECHNOLOGIES**

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 it was founded in 1919 this family business in the East of the Netherlands has evolved from a hatchery system manufacturer to an integrated hatchery solutions supplier. 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 an efficient and reliable operation of integrated hatchery systems.

Pas Reform has extensive experience with the provision of advice regarding the design, installation and servicing of these product groups.

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 three main offices: Pas Reform in the Netherlands, Pas Reform do Brasil in Brazil and NatureForm 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 (USA) and Rio Claro (BR). Pas Reform's around 150 employees (FTEs) focus primarily on the development, sale, final assembly and service of the hatchery systems.

[www.pasreform.com](http://www.pasreform.com)



Lan  
Handling Technologies

Improving standards of living are pushing up the demand for convenience food.





## AGRI & FOOD SYSTEMS **LAN HANDLING TECHNOLOGIES**

Lan Handling Technologies produces top-of-the-range handling systems for the global food industry.



**49**

Active in handling systems for nearly 50 years



**160**

Around 160 employees



**35**

Exports to around 35 countries



**2**

2 offices

Every day clients profit from Lan Handling Technologies' on-site technical expertise and multi-disciplinary co-operation. By offering total solutions Lan enables them to develop their core business further.

Lan Handling Technologies has been active as a specialist in the handling of packaged products in sterilisation processes since 1970. Lan's portfolio also includes end-of-line solutions for handling products up to and including packaging. Lan's own specialists are responsible for system design, construction, assembly and installation. Lan's systems are made-to-measure based on standardised and proven technology.

Lan has gained a solid position within the global market for sterilised food products, in part due to intensive partnerships with leading multinationals in the food industry. Inventive robotics combined with robust mechanical solutions and advanced control technologies offer the client an extensive pallet of possibilities. Over 90% of Lan's revenue is generated outside the Netherlands.

[www.lanhandling.com](http://www.lanhandling.com)



A wide variety of injection moulding machines enables client-specific plastic components to be manufactured.

## PLASTIC COMPONENTS **TIMMERIJE**

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



**87**

Active in plastic injection moulding for 87 years



**145**

Around 140 employees



A leader in the Benelux



**50**

50 modern injection moulding machines

Timmerije has specialised in plastic injection moulding since it was founded in Neede over 87 years ago. Timmerije commands the entire process and its over 140 dedicated and flexible 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 the client and the 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 planned 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 the food & agriculture industry, the mobility industry, electrical engineering installations, household equipment, central heating boilers and chairs are manufactured for just-in-time delivery.

[www.timmerije.com](http://www.timmerije.com)





Upgrading the injection moulding hall in Hellevoetsluis means Helvoet can produce sustainable plastic components.



## PLASTIC COMPONENTS **HELVOET RUBBER & PLASTIC TECHNOLOGIES**

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 thermoset), 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.

Helvoet's 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 rival accepted materials are constantly being announced. The properties of thermoset plastics in particular mean they are increasingly replacing metal components in the automotive industry to reduce weight and, therefore, environmental-

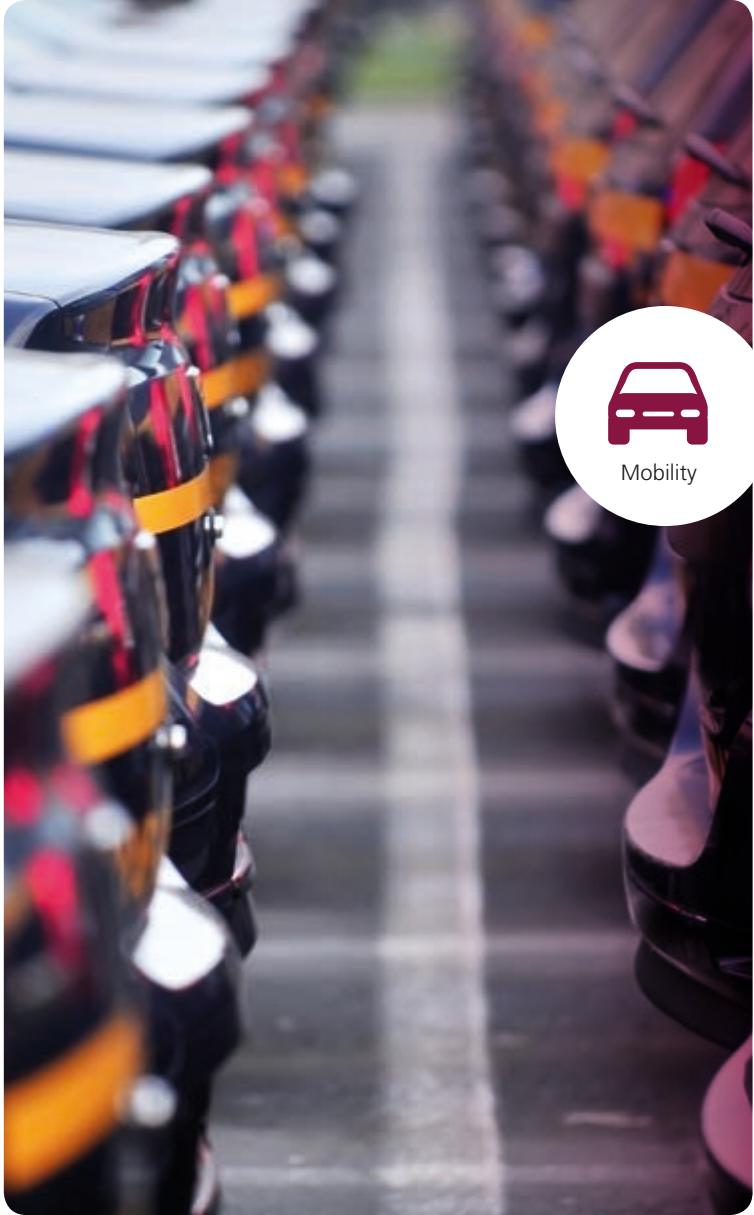
impact. Helvoet's own rubber mixtures, alone or in combination with plastic or metal, are also providing solutions that previously were only possible with traditional materials.

The continuous improvement of 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 & manufacturing facilities in the Netherlands (Tilburg and Hellevoetsluis), Belgium (Lommel), Germany (Munich), India (Pune) and Poland (Kaniow and Wroclaw), and a sales office in the USA (Detroit). In total Helvoet employs around 950 flexible employees.

[www.helvoet.com](http://www.helvoet.com)

# MARKETS



## HIGHLIGHTS

<h3>Substantially higher revenue</h3> <p> <b>€ 208</b> miljoen <b>+23%</b> Of which 15% organic 2017: € 169 million</p>	<h3>Operating profit</h3> <p> <b>€ 8.9</b> million <b>+7%</b> 2017: € 8.3 million</p> <p>Excluding one-time items</p> <p> <b>€ 12.4</b> million <b>+49%</b> 2017: € 8.3 million</p>	<h3>Acquisitions</h3> <ul style="list-style-type: none"><li>• Agri &amp; Food Systems: <b>NatureForm</b> (Jacksonville, USA)</li><li>• Plastic Components: <b>Partner</b> (Kaniow, PL) <b>Polmer</b> (Wroclaw, PL)</li></ul>
<h3>Net profit</h3> <p> <b>€ 8.5</b> million <b>+19%</b> 2017: € 7.1 miljoen</p>	<h3>Earnings per share</h3> <p> <b>€ 6.63</b> 2017: € 5.60</p> <p>Dividend proposal</p> <p> <b>€ 2.70</b> <b>+20%</b> 2017: € 2.25</p>	<h3>New CFO</h3> <p>Per 1 November 2018</p> <p><b>Everien Slijkhuis</b></p>

# KEY FIGURES

Amounts in thousands of euro unless stated otherwise





## KEY FIGURES

Amounts in thousands of euro unless stated otherwise

	2018	2017	Key ratios	2018	2017
<b>Profit and loss account</b>					
Net revenue	208,388	169,323	Operating profit as a % of revenue	4.3%	4.9%
Operating profit	8,930	8,311	Return on invested capital <sup>1</sup>	9.6%	11.8%
Net profit	8,507	7,129	Return on shareholders' equity <sup>2</sup>	15.1%	14.0%
			Solvency <sup>3</sup>	35.3%	38.6%
<b>Cash flow</b>					
From operating activities	9,510	13,962	Number of issued shares	1,284,816	1,275,293
From investing activities	-15,010	-8,000	Earnings per share (in euro)	6.63	5.60
From financing activities	2,063	-334	Number of employees <sup>4</sup>	1,136	776
<b>Net cash flow</b>	-3,437	5,628			
<b>Balance sheet</b>					
Shareholders' equity	59,189	53,399			
Balance sheet total	167,882	138,282			

<sup>1</sup> 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).

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

<sup>3</sup> Shareholders' equity as a % of the balance sheet total.

<sup>4</sup> FTEs at year end.

# STRATEGY AND FINANCIAL TARGETS

## STRATEGY

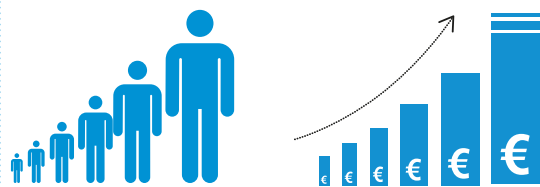
Hydratec Industries NV is a globally-active technology company specialised in industrial systems and components, with a focus on the Food, Mobility and Health markets. Hydratec has two core activities: Agri & Food Systems and Plastic Components.

To meet the growing need for food for people and animals, Agri & Food Systems supplies complete industrial systems on a project basis around the world. This makes this market 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 Hydratec companies' clients are active primarily in the following market segments:

*The Hydratec companies are in a good position for the growth of the global population and the rise in the standard of living.*



### • Food

To enable the world's growing population to continue being fed the Food market will continue growing. Despite the reduction of meat consumption in general, the consumption of chicken worldwide is expected to continue rising because chicken has a healthy image, a relatively low CO<sub>2</sub> footprint and is religiously-neutral. Due to rising standards of living the manufacture of convenience food and pet food will also increase and food safety and animal welfare will play an increasingly important role.



### • Mobility

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 in the automotive sector and certainly to demands to reduce the weight of vehicles. This trend offers threats for existing fuel systems, but also offers opportunities for the replacement of relatively heavy metal components by lighter plastics with more design freedom.



### • Health

Increasing welfare and longevity will result in a steady growth of the Health market. Many developments are taking place, such as new diagnosis methods and new delivery systems, including for medication. The quality and hygiene specifications in this industry are very stringent, 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 as a minimum conforms to the market. Toward this end we strive for leading positions in the various markets that make achieving high added-value for the end users possible. Functions that contribute towards the client's success and, therefore, for which means are available are continuously being developed. It is not only the primary functions that are being improved, so too are the functions that take the worries off the client's shoulders, such as logistics functions, maintenance, design and advice. This service-isation leads to closer ties to the client and, therefore higher margins. The smart application of new technologies will enable us to make a difference for our clients and will broaden our product package with

## STRATEGY AND FINANCIAL TARGETS

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.

The strategic market positions and options of each company are evaluated annually and a so-called SWOT analysis is compiled. This evaluation forms 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 to expand our existing activities and where possible broaden our industrial activities through acquisitions and collaborations. 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, so 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.

The 'battle for talent' is in full flood and extra attention is being paid to finding and retaining good employees, for example through the structural offering of work placement and trainee opportunities in our companies. The management must be capable of identifying market opportunities, developing innovative products and steering their own organisations in a practical and stimulating manner. All these developments also lead to changing

demands on the organisation. This is why the employees' personal development is promoted continuously, including through training, on the basis of ambitious, but realistic, targets derived from scenarios that form a guideline for everyone involved

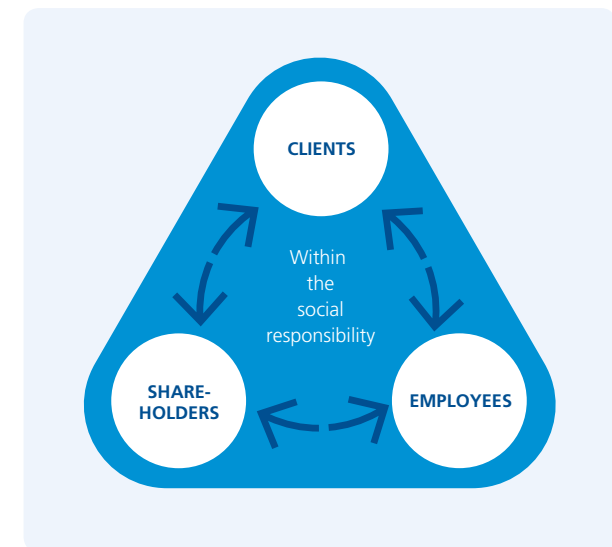
The Management Boards of Hydratec's companies are responsible for carrying out their own operating activities within a clear framework of decisions that require the approval of the Hydratec Management Board. These decisions relate primarily to budgeted investments, major organisational changes and fundamental 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 setbacks 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).



*A company's long-term financial success depends on the dedicated efforts of its employees and clients' appreciation of these efforts.*

# INFORMATION FOR SHAREHOLDERS

## STOCK MARKET LISTING

Hydratec's shares are listed on Euronext Amsterdam (ISIN NL 000 939 1242). The total number of issued share as at 31 December 2018 was 1,284,816.

## FINANCIAL CALENDAR 2019

Trading update first quarter	8 May
General Meeting of Shareholders	29 May
Publication of half-year figures	25 July
Trading update third quarter	8 November

## DISCLOSURE OF MAJOR HOLDINGS ACT

In the context of the Disclosure of Major Holdings Act, as at 4 April 2019 the following holdings of more than 3% were known:

Shareholder	Interest	Date of disclosure
A.C. ten Cate	23.1%	21 March 2017
F. ten Cate	23.1%	21 March 2017
J. ten Cate	23.1%	21 March 2017
P. Chr. van Leeuwen Beheer B.V.	5.7%	9 May 2014
B.F. Aangenendt	5.5%	30 June 2017
M. Spiensma	3.1%	2 December 2014

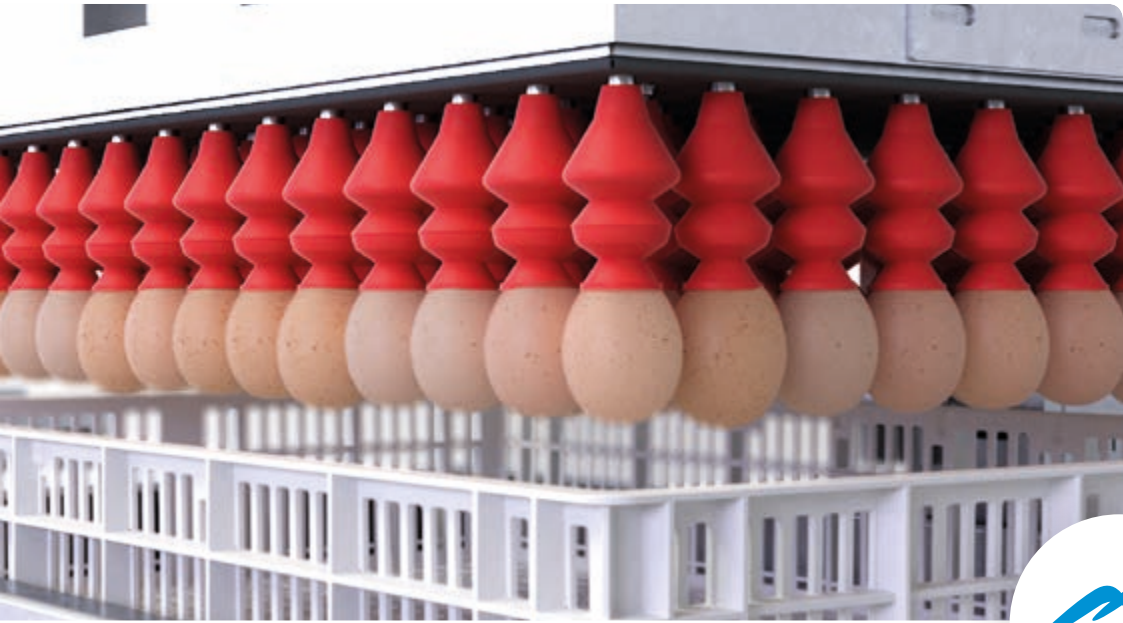
## FINANCIAL DATA PER ORDINARY SHARE

Amounts in euro unless stated otherwise

	2018	2017
Number of issued shares	1,284,816	1,275,293
Weighted average number of shares	1,283,186	1,273,960
Operating profit	6.96	6.52
Profit	6.63	5.60
Shareholders' equity attributable to shareholders of Hydratec	46.13	41.92
Available cash flow <sup>1</sup>	-4.29	4.68
Dividend	2.70	2.25
Price at year end	63.00	55.03
Lowest price	54.00	44.06
Highest price	74.00	64.00

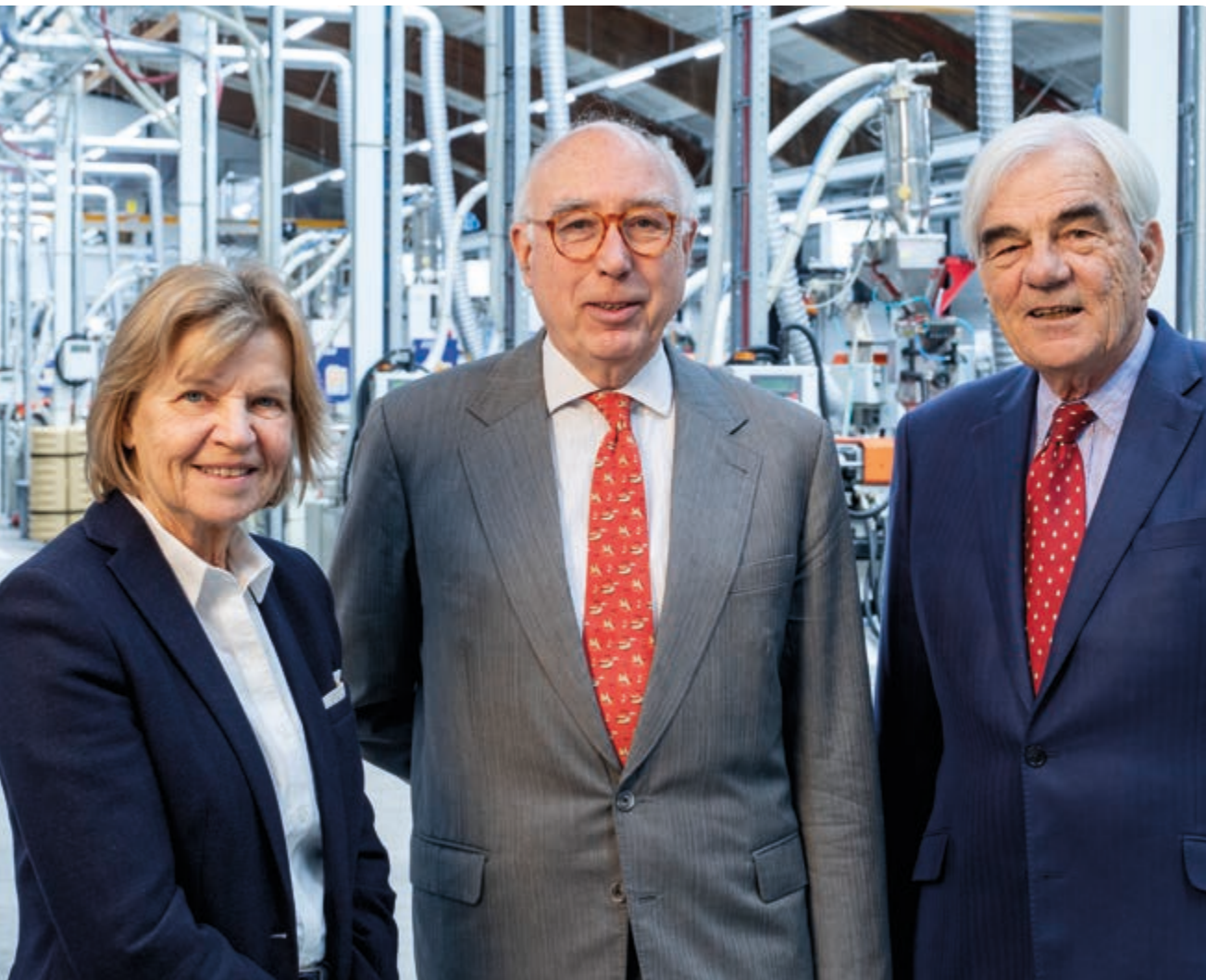
<sup>1</sup> Sum of operating and investment cash flows.







## MEMBERS OF THE SUPERVISORY BOARD



From left to right: Mrs M.E.P. Sanders and Messrs. E. ten Cate and J.E. Vaandrager.

### **E. ten Cate (1945) — voorzitter**

First appointed: 2000

Current term ends: 2020

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

### **Supervisory Board memberships/other positions held**

Member of the Supervisory Board, Hendrick de Keyser

Member of the Board, Stichting Kasteel Rechteren

### **J.E. Vaandrager (1943) — Vice-chairman**

First appointed: 2011

Current term ends: 2019

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

### **Mr. M.E.P. Sanders (1953)**

First appointed: 2017

Current term ends: 2021

Last position held: member of the Supervisory Board, Kendrion N.V.

### **Supervisory Board memberships/other positions held**

Member of the Supervisory Board, Stern Groep

Member of the Supervisory Board, Hoens Broadcast Facilities B.V.

Chairman of the Supervisory Board, Meilink B.V.

Chairman of the Investment Committee, SI2 Fund

Chairman of the Advisory Board, Difrax Beheer B.V.

Member of the Board, Stichting TivoliVredenburgfonds

All the Supervisory Board members are Dutch nationals

# REPORT OF THE SUPERVISORY BOARD

Last year was another good year for Hydratec Industries NV. All the companies were able to improve their revenue organically and three smaller companies were added to the Group. As a consequence revenue rose sharply to over € 208 million. The Agri & Food companies improved their net profit substantially. Plastic Components' results were disappointing due to reduced revenue from the automotive sector plus a one-time expense. This was partially offset by a ledger-profit on the purchase of a company.

The net profit for shareholders amounted to € 8.5 million compared to € 7.1 million in 2017.

## ANNUAL REPORT

We hereby submit the 2018 annual report, including the annual accounts, of Hydratec Industries NV prepared by the Management Board. These annual accounts have been audited by Baker Tilly Berk accountants and were discussed by us and the Management Board on 21 March 2019 in the presence of the Auditor. The Auditor's report is included on pages 80 to 85 of the official Dutch 2018 annual report which can be found on [www.hydratec.nl](http://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 2018.

## COMPOSITION OF THE SUPERVISORY BOARD

The members of the Supervisory Board are listed on page 20. 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 spent his entire career

working 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 has extensive experience as an entrepreneur and as a member of various Supervisory Boards. The third 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.

Mr Vaandrager's current term ends in 2019. The Supervisory Board recommends that Mr. Vaandrager is reappointed for one term.

The Supervisory Board is of the opinion that this variety of experience and background provides a good diversity. The composition of the Supervisory Board is such that the members can act independently and critically towards each other and the members of the Management Board.

## SUPERVISION

Hydratec's targets for 2018 were ambitious, but were not achieved in full due to the reticence in the automotive market. The Supervisory Board endorses the Management Board's policy of investing in product development, strengthening technical know-how, improving manufacturing capacity and reinforcing the market position. In 2018 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 Supervisory Board's opinion Hydratec's risk profile has not changed. It is encouraging to note that the different

companies are well positioned for the future. Attention was paid to the risk-management system and this did not produce any singularities. This evaluation also showed that Hydratec is not large enough to warrant it having its own internal audit function. The Group Management Board and the Management Boards of the operating companies should be complimented for their success with further developing the companies.

During 2018 the Supervisory Board held five scheduled meetings with the Management Board. All the Supervisory Board members attended these meetings. Prior to the General Meeting of Shareholders on 30 May 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 Company's strategy, acquisition policy, risk management, personnel policy, quarterly and half-yearly results, 2018 annual figures and the budget for 2019. 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 ensure the results remain at a satisfactory level. Attention was also paid to amendments to legislation. An extraordinary meeting of the Supervisory Board was convened to discuss the reorganisation of Plastic Components. This reorganisation remained a topic requiring special attention from the Supervisory Board during the remainder of the year.

In 2018 the Supervisory Board met twice with the external Auditor, on one occasion in the absence of the Management Board. The tasks of the external Auditor were evaluated and the audit plan approved. In addition, during one meeting the Supervisory Board evaluated the

## REPORT OF THE SUPERVISORY BOARD

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 Management Board 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

“Last year was another good year for Hydratec Industries NV. All the companies were able to improve their revenue organically.”

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 on a regular basis and, if necessary makes an adjustment. Changes to the salary policy are put before the General Meeting of Shareholders

The annual fixed salary of the Management Board members was determined by the Supervisory Board on the basis of the stipulations listed above in mid 2015. The fixed salaries are indexed for inflation on a regular basis. No loans were granted or termination recompense paid. The remuneration of the Management Board members, and the bonus awarded for the 2018 financial year, are specified in Note 1.25.3 on page 57 of the official Dutch 2018 annual report which can be found on [www.hydratec.nl](http://www.hydratec.nl). The Supervisory Board has decided to award the members of the Management Board a bonus in respect of the 2018 financial year. The members of the Management Board have decided to convert part of their bonus for 2017 into shares and have indicated this is also their intention in respect of the 2018 bonus.

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 and the members of the Supervisory Board are not paid any remuneration in the form of shares or share options. 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 remuneration of the Supervisory Board members in 2018 is specified on page 56 of the official Dutch 2018 annual report which can be found on [www.hydratec.nl](http://www.hydratec.nl).

### COMPOSITION OF THE MANAGEMENT BOARD

In 2018 Mr. M.C. van den Burg retired as CFO. The Supervisory Board is very grateful to Mr. Van den Burg for everything he has done for Hydratec during the past years.

## REPORT OF THE SUPERVISORY BOARD

He is succeeded by Mrs. E.H. Slijkhuis. The Management Board is Chaired by Mr. B.F. Aangenendt.

### CORPORATE GOVERNANCE

The Supervisory Board endorses the objectives of the guidelines contained in the Dutch Corporate Governance Code for stock exchange listed companies. No conflict of interest occurred during 2018. Hydratec also deviates from the Code in the following ways:

- In view of the Company's size no internal auditor has been appointed (§ 1.3).
- Mr. E. ten Cate (Chairman of the Supervisory Board) does not meet the independence criteria as specified in the Code as his direct blood relatives hold more than 10% of the shares (§2.1.9).
- 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 (§ 2.2.2).
- Webcasts of presentations to investors and analysts are not offered as Hydratec is a so-called Veilingfonds (auction fund) (§ 4.2.3).

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 2018 and the results they achieved in this year.

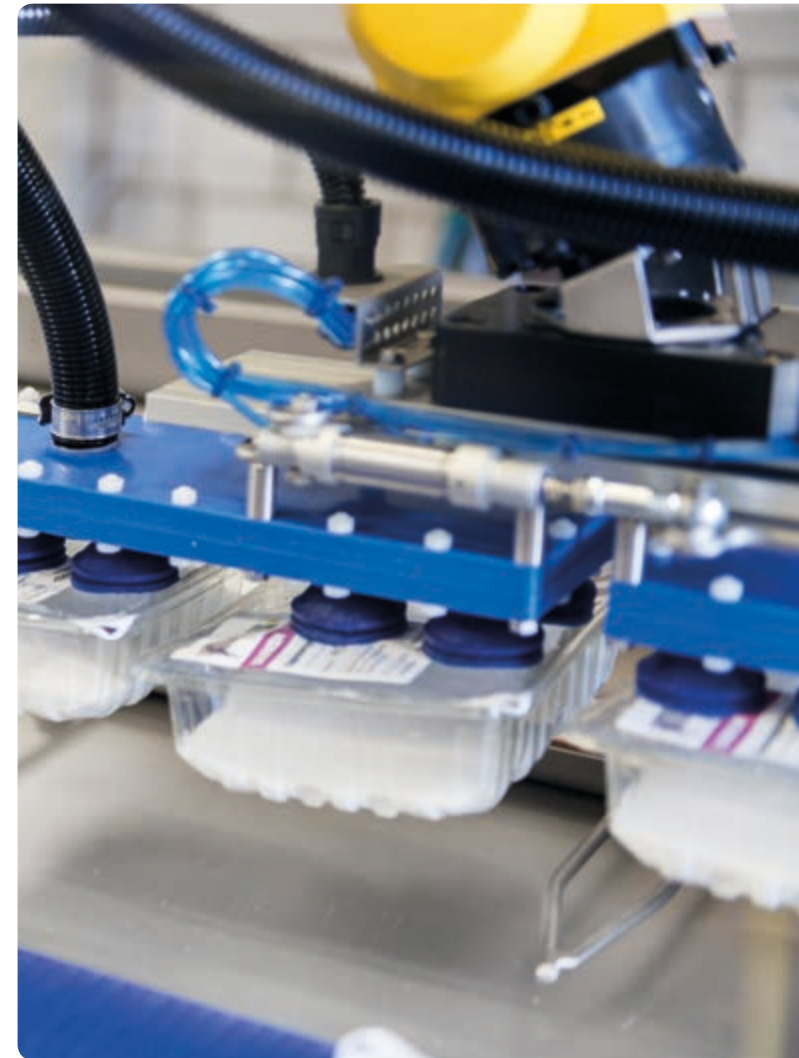
Amersfoort, 4 April 2019

### Supervisory Board

**E. ten Cate** Chairman

**J.E. Vaandrager** Vice-chairman

**M.E.P. Sanders**





## MEMBERS OF THE MANAGEMENT BOARD



**Ir. B. (Bart) F. Aangenendt (1964)**

*Statutory Director*

*CEO*

First appointed: 2012 (Board member)

Year appointed (CEO): 2015

Current term ends: 2020

**Drs. E. (Everien) H. Slijkhuis RA (1968)**

*Statutory Director*

*CFO*

First appointed: 2018

Current term ends: 2022

**Supervisory Board memberships/other positions held**

Member of the Supervisory Board, Veluwe Onderwijsgroep

Both members of the Management Board are Dutch nationals.

*From left to right: Bart Aangenendt and Everien Slijkhuis.*

# REPORT OF THE MANAGEMENT BOARD

## GENERAL

The revenue for 2018 of Hydratec Industries NV amounted to € 208 million – an increase of 23% of which 15% was organic. The Agri & Food core activity achieved particularly good revenue growth – 45% of which 30% was organic. Plastic Components also achieved clear growth of 8.8% of which 4.7% was organic. Investments in 2018 amounted to a substantial € 15.0 million (2017: € 8.0 million).

To strengthen Plastic Components' market position the Kaniow (Poland) office of our former supplier was acquired as of 1 January 2018. Polmer Sp.zo.o. in Wroclaw (Poland) was also added to the Group as of 1 September 2018. In Agri & Food Systems, to enable Pas Reform to become a more important player in the USA's large poultry industry, the remaining 50% of the shares of NatureForm Hatchery Technologies Inc. (Jacksonville) were acquired at the beginning of 2018.

As of 1 November 2018 Everien Slijkhuis was appointed a Statutory Director of Hydratec Industries NV in the position of CFO.

## FINANCIAL DEVELOPMENTS

At € 8.9 million Hydratec's operating profit for 2018 was higher than for the previous year (€ 8.3 million). The operating profit for 2018 included one-time costs of €4.8 million, most of which were related to the reorganisation of Plastic Components. In addition, one-time income of €1.3 million was achieved through the advantageous purchase of Polmer. Excluding these one-time items operating profit amounted to € 12.4 million – an increase of 49% compared with the previous year.

The operating profit within Agri & Food Systems was € 8.3 million – 85% higher than the € 4.5 million achieved in 2017. Most of this increase was due to the higher revenue. Plastic Components achieved operating profit of € 0.9 million (2017: € 5.2 million). The decrease was due primarily to disappointing revenue from the automotive sector and the costs related to the reorganisation.

The improved operating profit plus a tax income resulted in a higher net profit attributable to shareholders of € 8.5 million compared to € 7.1 million in 2017 (+19%).

## Financial income and expenses

Financial expenses for 2018 amounted to € 1.2 million (2017 € 1.0 million). At the end of 2018 Hydratec's balance of cash and at bank was € 3.5 million (2017: € 7.2 million). Interest bearing loan capital rose from € 17.2 million to € 23.8 million.

## Fiscal effects

The effective tax rate in 2018 was –6.0% compared to 2.7% in 2016. This resulted in tax income of € 0.5 million (2017: € –0.2 million) in the profit and loss account. This tax income was due mainly to the capitalisation of deferred tax receivables and the future changes to tax rates in the Netherlands.

## Cash flow

Operational cash flow in 2018 amounted to € 9.5 million (2017: € 14.0 million). The decrease compared to the previous year was due primarily to the fact that in 2017 Agri & Food Systems received a substantial amount in advance payments from clients. This stabilised in 2018. At € 15.0 million negative, cash flow from investing activities was substantially higher than in 2017

(€ 8.0 million negative). The increase was mainly the result of investments made to facilitate growth plus the acquisition of Polmer and NatureForm. The Company also invested in the construction of a new building for LAN Handling Technologies. Net cash flow from financing activities amounted to € 2.1 million positive due on the one hand to dividend pay-outs totalling € 2.9 million and on the other hand to a net inflow from the non-current loans amounting to € 5.0 million.

## Balance sheet

Solvency fell from 38.6% in 2017 to 35.3%. The drop in solvency was due to the balance sheet total rising from € 138 million to € 168 million, mainly as a result of the consolidation of Polmer and NatureForm plus the organic revenue growth, which caused an increase in operational working capital. Non-current debt rose due to the new building for Lan Handling Technologies and the related financing. As of the balance sheet date a portion of the land in Hellevoetsluis was classified as held for sale.

## Dividend proposal

Earnings per share amounted to € 6.63 compared to € 5.60 in 2017. It will be proposed to the General Meeting of Shareholders that a dividend of € 2.70 per share be paid out for the 2018 financial year (compared to € 2.25 for 2017). 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 2018 will be added to the other reserves.



**Pas Reform Hatchery Technologies**  
**Mohamed Lachgar (48)**  
**With the Company: 3 years**

“Pas Reform is the world’s only single-source supplier of integrated hatchery solutions. As project manager I am responsible for projects all over the world. Our business is growing quickly and it is challenging and satisfactory to manage relationships between Pas Reform and our customers. Through innovation, technology and training on the job we are able to quickly respond to customer’s requests. This varies from software related projects to complete turnkey projects. After 1.5 years of preparations and building, we recently implemented a turnkey project in the Middle East. The customer provided the land and we built the production facility including all equipment, water treatment, software, logistics et cetera. Our mission is to always deliver the highest number of best quality chicks. Our skills, reliability, on-time delivery, process control and attention for animal welfare, give us access to important global customers which leads to more market share. The recent launch of the SmartStart™, a post-hatch feeding solution underlines our innovative power.”

## Agri & Food Systems

### DEVELOPMENT

#### 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. Revenue from all three of these markets increased substantially in 2018. Most of the revenue (94%) was generated outside the Netherlands and two-thirds was generated outside Europe. Revenue from Asia remained stable, but revenue from North and South America increased substantially. This was due to individual projects in the pet food market, plus the fact that our position in the world’s largest poultry market – the USA – was reinforced by the acquisition of NatureForm. This market is currently developing well with orders for attractive clients such as Tyson, Cobb and Koch. To facilitate the growth in the USA, at the end of 2018 NatureForm relocated to new, modern premises. Our international sales/service organisation was also reinforced in other regions. This has improved our global presence in the various markets.

How willing our clients are to invest is determined by a number of factors, such as local legislation/subsidies, currency exchange rates, feed prices, regional poultry diseases etc. This is why having a broad range of products spread across a large number of countries and clients is very important for Agri & Food Systems. At the same time, specialisation and standardisation are necessary in order to remain cost effective. Standardisation means good solutions can be re-used, which reduces both costs and risks. This is called Configure To Order and replaces Engineering To Order.

The market in which our Agri & Food companies operate is paying more and more attention to sustainability in the broadest sense – from the energy usage of our systems and animal welfare to the efficiency of food production in general. In 2018 we introduced a user-friendly solution for feeding chicks immediately after hatching. This innovative animal-friendly application is expected to also result in a more efficient food production.

In 2018 we put considerable effort into product development with a focus on cost reduction on the one hand and increasing our market share on the other hand. The aim is market-oriented developments that deliver added-value to clients in aspects such as efficiency or sustainability. One example of this is the introduction of an in-line dryer that dries products, for example pet food pouches, more effectively and using far less energy and that also takes up less space than the traditional solution. Information about clients’ operations is essential for our development from machine builder to supplier of systems offering integrated total solutions. Developments that form the basis for the introduction of new products and offering

“Agri & Food Systems’  
revenue rose by 45%  
in 2018.”

## REPORT OF THE MANAGEMENT BOARD

existing clients more functions are taking place in collaboration with clients, suppliers and universities.

x € 1,000	2018	2017
Revenue	96,440	66,341
Gross margin	40,331	29,284
Depreciation and amortisation	1,085	1,009
Investments	7,209	756
Operating profit	8,288	4,490
Operating profit (%)	8.6%	6.8%
Number of FTEs at year end	315	254

In 2018, Agri & Food Systems' revenue rose by 45%, of which 30% was organic. The consolidation of NatureForm (USA) contributed 15% towards the revenue growth. The extra efforts and costs caused by the robust growth resulted in the gross margin as a percentage of revenue decreasing from 44.1% to 42.0%.

Extra people were employed to provide the capacity needed to deal with the revenue growth while continuing to work on operational improvements and product development. In addition, consolidation among our clients has made purchasing more professional, which has put pressure on margins.

Investments were substantial in 2018. To facilitate the growth of Lan Handling Technologies the decision was taken to build a new production facility and office in Tilburg and investments towards this end have already been made. Lan's is still using sub-standard accommodation and has hired various premises in different locations on a temporary basis. The new building will be a short distance away from the current premises and will have 5,000 m<sup>2</sup> of

manufacturing area and offices. When Lan moves into the new building in the first half of 2019 efficiency will rise.

At Pas Reform we invested in moulds for the manufacture of innovative and sustainable chick hatching containers that make large-scale early feeding in hatcheries possible.

Due to the steep revenue increase Agri & Food Systems' operating profit rose substantially to € 8.3 million, which equates to 8.6% of the revenue (was 6.8%). This has increased operating profit by 85% compared to 2017.

Both Pas Reform and Lan Handling Technologies occupy good positions in their markets and in 2018 Agri & Food Systems' order intake was significantly higher than in 2017 and, therefore, very encouraging.

“To facilitate the growth of Lan Handling Technologies the decision has been taken to build a new premises in Tilburg.”



### Lan Handling Technologies

Janick Rijken (29)

With the Company: 10 years

“I've worked for Lan since my college work experience, first as a technical illustrator, then as a project engineer, and for the past year as a sales support supervisor. We develop handling systems for the food industry. Every client is unique, which means our solutions are as well. During the tender phase I translate the client's wishes into the most appropriate technology. And once we've won the order I ensure our manufacturers receive the correct technical specifications. Thanks to our service, quality, innovative power and reliability we are growing rapidly. We need space because before we deliver an installation to a client we build it here, including the software, and test everything in detail. In mid 2019 we will be moving to a new building with more space than we have now. The new building is just what we need - more space, efficiency and ambiance. What's so good about Lan? I work in a technically-challenging environment and I see ideas I have come up with being used immediately in practice.”





**Helvoet Rubber & Plastics Technologies**  
**Firooz Abdoel (54)**  
**With the Company: 24 years**

“I am the plastic and assembly production leader in our Hellevoet-sluis facility. We manufacture high-quality plastic components for internationally-operating companies in the Mobility and Food sectors. These components include vacuum connectors for power assisted braking systems in cars and dosing systems for coffee machines. In August 2018 our new injection moulding hall went into service. The machines themselves haven't changed, but giving them more space, changing the routing, efficiently integrating crane rails (for quickly changing moulds) and installing a central material dosing system has streamlined processes and made them easy to monitor. Lots of daylight, climate control, vacuuming per machine and the addition of lifting support has made working far more enjoyable for all the employees. I am very happy that this new hall will enable us to grow further, to produce high-quality products and to use our people sustainably.”

## Plastic Components

### DEVELOPMENT

#### Helvoet Rubber & Plastic Technologies and Timmerije

The most important markets for Plastic Components are Mobility, Health and Food. In 2018 revenue in the Food market rose and we were able to secure large follow-up orders from our most important clients. Revenue also increased in the Health market and we were able to win new orders for the different specialisms within our Group from both existing and new clients.

Within the Mobility sector the Automotive segment had a difficult year while the revenue from components for lorries, bicycles and scooters increased. The decrease in revenue from the Automotive segment was especially steep in the second half of the year. This industry is facing declining sales, even in China. Obviously this influences suppliers of components. In our facility in Lommel, which is mainly dependent on the automotive industry, a reorganisation was announced and a provision for the reorganisation was included in our annual accounts. This put severe pressure on the 2018 result.

Plastic manufacturing in our markets is expected to continue increasing in the coming years. In 2018 Partner (Kaniow) and Polmer (Wroclaw) were added to the Group. Partner, a former Helvoet supplier, carries out labour-intensive inspection and rubber processes. Polmer is an injection moulding company with 25 injection moulding machines that produce complex visible parts for several sectors including the Polish white goods market. This acquisition has led to one-time income from a so-called advantageous purchasing. Thanks to these acquisitions we will, in the future, be better able to tackle the price competition and will be able to achieve growth while the

Western-European labour market for technically trained personnel is shrinking. In general the size, professionalism and demands of clients are increasing, which can lead to volume growth but, at the same time, can put pressure on prices. We will continue to focus on complex, often composite components, through which we can provide more added-value to our clients.

The effect of the intensified sales and marketing efforts are apparent from the significantly higher revenue from engineering projects. In these projects new products that will be manufactured in the future are developed. In general only a modest margin can be achieved on this development revenue.

In the projects on which we are working we are seeing increasing attention being paid to sustainability. This means that, in addition to the cost price, aspects such as reducing the weight of components, reducing material usage, reusing residual materials and limiting energy consumption and transport costs are becoming increasingly important. The companies within Plastic Components have a number of high-quality manufacturing technologies at their command, such as injection moulding of thermoplastic and thermoset products and the capability to bind their own composite rubbers to these plastics. One key technology is

“In 2018 Partner (Kaniow) and Polmer (Wroclaw) were added to the Group.”



## REPORT OF THE MANAGEMENT BOARD

the assembly of these components into functional modules. This often takes place completely automatically with the help of robots and vision technologies.

Because Plastic Components operates in a competitive market, cost reduction has a high priority, which means production efficiency is increasingly important.

x € 1,000	2018	2017
Revenue	113,024	103,858
Gross margin	65,497	60,267
Depreciation and amortisation	5,187	4,447
Investments	6,496	7,266
Operating profit	887	5,179
Operating profit (%)	0.8%	5.0%
Aantal fte's per jaareinde	1,210	779

In 2018 Plastic Components' revenue rose by 8.8%, of which 4.7% was organic. The acquisition of Polmer in Poland contributed 4.1% of the increase. The consolidation of supplier Partner in Poland did not result in increased revenue. The reduction in sales to the Automotive industry could be offset by an increase in the revenue generated in the Food and Health markets. The margin remained stable at 57.9% (2017: 58.0%).

Investments within Plastic Components in 2018 included new injection moulding machines both as replacements and for expansion. These new machines enable advanced injection moulding and assembly processes for complex products to be carried out in an energy-efficient way. The other investments were aimed at enabling the facility In

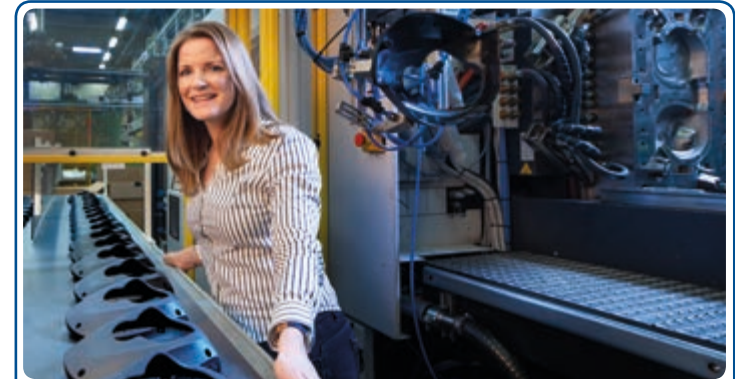
“Plastic Components' disappointing result was mainly due to one-time reorganisation costs.”

India to produce its own complex moulds and the automating of labour-intensive inspection processes.

Costs were also incurred to enable components to be produced at the right location. The production of several components was re-located to our supplier in Poland.

Plastic Components' result in 2018 was disappointing due to reduced revenue from the automotive sector, the resulting need to adjust the organisation and the high one-time reorganisation costs.

The positions in their markets of both Timmerije and Helvoet can be termed good. It looks as if the revenue increase within Food and Health will continue, the developments within the Automotive market are less certain.



**Timmerije**  
**Cindy Bauhuis (36)**  
**With the Company: 11 years**

“During my Industrial Product Design studies I had a work experience placement at Timmerije and then I started here as a project engineer. After completing a supplementary moulding course I became a project leader. I work intensively with clients to come up with smart and sustainable solutions and, if wished, manage the process from sketch to manufacturing. For example, for Gazelle's bicycles we have developed components such as jacket protectors, chain guards, motor covers and battery caps. But we also manufacture components for the Maxi-Cosi, coffee machines and central-heating boilers. The end product can be a separate plastic component or an assembly of components. Sustainability is playing an increasingly important role. The materials we are currently investigating include bio-based plastic: plastic based on starch combined with elephant grass. But more and more parts are being made from post-consumer recycled plastic. Clients are curious about the possibilities. I always enjoy being able to take the worry off a client's shoulders and develop a product that exceeds their demands.”

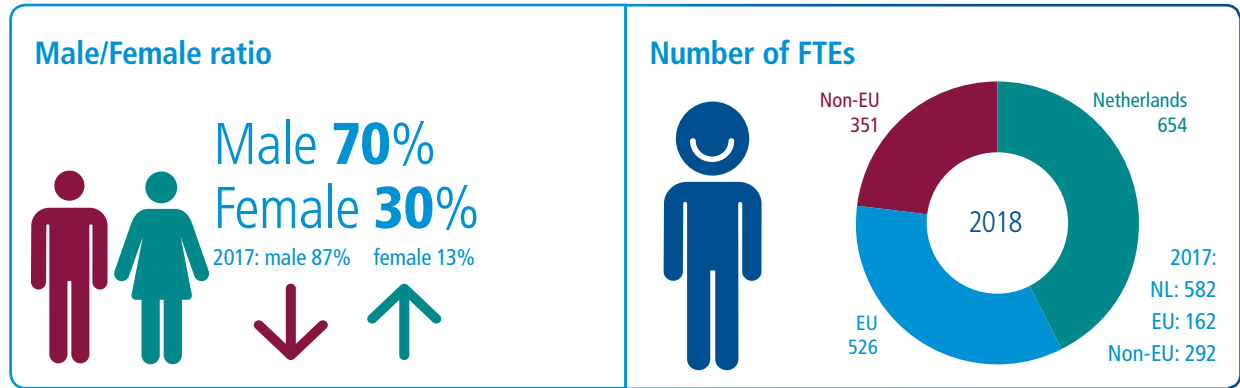
**PERSONNEL AND ORGANISATION**

**Personnel policy per operating company**

The long-term success of a company is primarily 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. Every operating company within the Group has drawn up a Code of Conduct to which its employees and Management commit themselves to adhere. 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. When possible, people with poor employment prospects are offered opportunities to develop themselves, sometimes via a sheltered workshop. Within every company there is regular and constructive consultation with the local Works Council. The central Management Board participates in this consultation once a year. Despite the difficult labour market, in 2018 we again succeeded in recruiting many new talented employees.

**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 manufacturing process. Paying constant attention to employees, and in particular their working conditions, is a key factor for all the companies. This not only minimises absenteeism through sickness, it also guarantees maximum safety within the manufacturing 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. The companies should remain constantly alert to environmental aspects relevant to their business operations and to the prevention of calamities. Environmental risk assessments are, therefore, carried out at the manufacturing facilities on a regular basis and, if necessary, lead to the immediate implementation of measures and procedures to reduce the risks still further. The investigation focuses not only on complying with environmental legislation, but also on assessing which preventative measures can be implemented. The effectiveness of the implemented measures is checked on an on-going basis in order to limit risks as far as possible. Increasingly the processes are also checked for possibilities to improve the sustainability of our products and/or manufacturing processes. In addition to preventive measures, Hydratec's policy also focuses on reducing its overall environmental-impact and seeking ways to reduce the CO<sub>2</sub> footprint of its operating companies. For example, solar panels and a heat pump have been installed at Lan's new building so a portion of the energy required can be generated on-site. This aspect continues to increase in

importance because our clients are also specifying increasingly stringent requirements in this context. We will continue keeping a sharp eye out for developments that could lead to further reductions in environmental impact.

**Workforce**

Hydratec sets great store by having a diverse workforce because we are convinced this stimulates innovation and, in general, means decisions are based more on facts. Diversity is the result of various differences including in education, background, age, gender and ethnicity. It is one of the reasons why we strive for a balance between men and women within the companies, even though this isn't easy for an organisation with a clear technical orientation. At the end of 2018 Hydratec's Management Board comprised two members, one male and one female, and its Supervisory Board comprised three members - one female and two male. The workforce within the companies is now 30% female - one year ago it was 13%. This increase is due primarily to the addition to the Group of the companies in Poland, where a relatively large number of women work.

## REPORT OF THE MANAGEMENT BOARD

At the end of 2018 the total workforce (FTEs) was 1,531 (end of 2017: 1,036), of which 74% had a contract with one of the operating companies. The total number of employees on the Group's own payroll at the end of 2018 rose to 1,136 (end of 2017 776 FTEs). Of these 592 FTEs (end of 2017: 293 FTEs) worked abroad, including 444 at Plastics companies within Europe, 117 in India and 31 in North and South America. Hydratec is becoming an increasingly international company.

Human rights, bribery and sanctions legislation  
Hydratec believes that international trade leads to stability and peace through economic growth, opportunities and mutual understanding. We are aware of the obligation to trade within the Laws and regulations of the countries in which we are active. Relations with employees, suppliers and clients are based on trust and integrity.

In countries in which human rights are not so firmly embedded in local legislation Hydratec is equally committed to respecting human rights and the same Code of Conduct adhered to within the Group companies is applicable. Employees are paid a fair salary, are provided a safe working environment and are offered a good balance between working and leisure time. Men and women are paid equally and employees have the right to join a trade union

Hydratec's employees commit themselves to adhering to the Company's Code of Conduct and are aware that the giving or receiving of gifts that could influence decision-making is prohibited. The consequences of corruption and bribery could include damage to the reputation of the Group as a whole. In certain countries there is also a risk that a case of corruption or bribery would severely jeopardise the possibilities for doing business. Based on the

available information there were no accusations of corruption or bribery during 2018.

### 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. Whether the risk assessment system is functioning adequately or requires amendment is assessed during the annual strategic evaluation with the Supervisory Board. 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 risks

##### 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 with the related risks. These product developments are based primarily on identified concrete requirements of clients and potential clients.

“Hydratec is increasingly becoming an international technology company.”

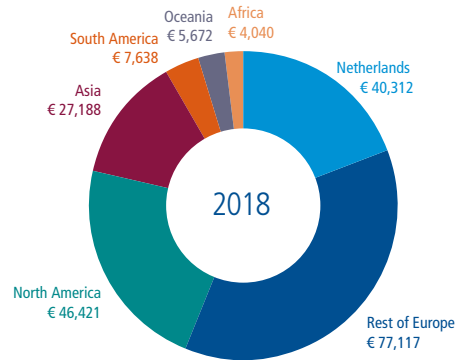
Hydratec also endeavours to strengthen its companies' market positions, gain synergy advantages and gradually expand its revenue and geographical area of operations through acquisitions. Hydratec also remains alert for opportunities in industrial sectors in which it is not yet active. This can mean that 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

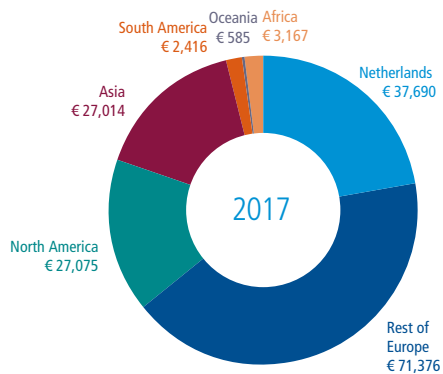
Agri & Food Systems' projects are located all over the world. The revenue from these projects can fluctuate significantly each year per client and per country. The top-10 countries account for around 70% of Agri & Food Systems' total revenue. In 2018 the United States generated the largest share of the revenue (30%), in part due to the acquisition of NatureForm. The share of the United Kingdom fell to 4% (was 12%). This drop is not considered to be due to uncertainties regarding Brexit, but simply one of the fluctuations per country that is 'normal' within Agri & Food Systems. In 2018 each of the remaining countries generated less than 5% of the revenue. The share of

**REPORT OF THE MANAGEMENT BOARD**

**Revenue per country/region 2018 (x 1,000 euro)**



**Revenue per country/region 2018 (x 1,000 euro)**



revenue can fluctuate substantially per country per year. Large project orders can also create major fluctuations in the Agri & Food Systems companies' yearly revenue and results. Even after a contract for a project has been signed the client can postpone the actual delivery 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.

In general Plastic Components' relationships with its clients are long-term. Plastics Components' top-10 clients account for around 45% of its 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 regulations are followed very closely and form a component of the sales process.

Each year the strategic market positions and options are evaluated per company and a so-called SWOT analysis is carried out. This evaluation forms the basis for decisions regarding long-term investments and product-market development priorities.

**Operational risks**

**Product liability and manufacturing risks**

Within the Hydratec companies many different production processes are carried out. As a result there is a risk of human error and incidental manufacturing faults that could 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. As the manufacturing activities of all the companies sometimes involve 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 Poland.

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.



“Due to the acquisition of NatureForm the largest share of Agri & Food Systems revenue was generated in the United States.”

#### 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 manufacturing 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 automated 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. Constant attention is paid to cybersecurity and the mitigation of security risks.

#### Financial risks

Hydratec's consolidated annual accounts have been prepared in accordance with IFRS-EU regulations. The Notes to the consolidated annual accounts on pages 43 to 71 of the official Dutch 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 complies with the provisions laid down in the Dutch Corporate Governance Code. Key concepts such as transparency and accountability to 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.

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 margins, 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 different management boards also prepare quarterly reports which include an explanation of organisational developments as well as of market and product developments.

## REPORT OF THE MANAGEMENT BOARD

The various strategic, operational and financial risks are discussed annually. Any major shortcomings or changes in the internal risk management and control systems are discussed with the Supervisory Board.

Hydratec is a structural regime and has issued a number of ordinary shares. No special control rights are linked to shares and Hydratec does not implement any special hostile take-over protection measures. 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 who hold an interest of over 3%, and must therefore be disclosed to comply with the Disclosure of Major Holdings Act, are listed on page 18.

## 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.

Hydratec's Management Board declares that, to the best of its knowledge, the 2018 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 2019

The order intake of Agri & Food in 2018 was encouraging and the order book is well filled. For Plastic Components the increase in revenue within Food and Health appears to be continuing. Developments within the Automotive market are more uncertain. As always the demand for our products will be affected by macro-economic developments, such as volatile currency exchange rates and trade restrictions. Partly for this reason we deem it too early to make a definite statement regarding the possible result for 2019.

## A word of thanks

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

Amersfoort, 4 April 2019

### Management Board

**B.F. Aangenendt** CEO

**E.H. Slijkhuis** CFO

# SUMMARISED ANNUAL ACCOUNTS 2018

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## CONSOLIDATED PROFIT AND LOSS ACCOUNT

x € 1,000

	2018	2017
<b>Net revenue</b>	208,388	169,323
Material usage	102,560	79,773
Gross margin	105,828	89,550
Wages and salaries	44,235	35,282
Social security premiums and pensions	10,180	8,965
Depreciation and amortisation of non-current assets	6,271	5,456
Other operating costs	37,475	31,536
	98,161	81,239
Extraordinary income and expenses	1,263	–
<b>Operating profit</b>	8,930	8,311
Financial income and expenses	1,165	1,003
<b>Result before taxes</b>	7,765	7,308
Income tax	– 473	195
Result from investments in associates	269	16
<b>Net result</b>	8,507	7,129
<b>Net result attributable to shareholders</b>	8,507	7,129
<b>Weighted average number of shares</b>	1,283,186	1,273,960
Earnings per ordinary share (in euro)	6.63	5.60
Diluted earnings per ordinary share (in euro)	6.62	5.59



## CONSOLIDATED SUMMARY OF COMPREHENSIVE INCOME

x € 1,000	2018	2017
Net result	8,507	7,129
<b>Components that may be recognised in the result in the future</b>		
Result of hedge on financial derivatives	– 228	186
Currency translation differences	– 46	– 266
Total other comprehensive income	– 274	– 80
Total comprehensive income	<u>8,233</u>	<u>7,049</u>
<b>Total comprehensive income attributable to shareholders</b>	<u>8,233</u>	<u>7,049</u>

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER before appropriation of result

x € 1,000	2018	2017
<b>ASSETS</b>		
Intangible assets	20,777	17,882
Tangible assets	58,102	46,411
Investments in associates	0	271
Deferred tax asset	3,743	1,260
Other financial non-current assets	90	211
<b>Total non-current assets</b>	<u>82,712</u>	<u>66,035</u>
Inventories	30,577	23,876
Trade receivables	35,416	30,344
Current tax assets	102	647
Other taxes and social security premiums	2,773	2,033
Other receivables	9,502	7,614
Accrued assets	1,135	511
Cash and cash equivalents	3,504	7,222
Assets as held for sale	2,161	0
<b>Total current assets</b>	<u>85,170</u>	<u>72,247</u>
<b>Total assets</b>	<u>167,882</u>	<u>138,282</u>

x € 1,000

2018

2017

**LIABILITIES**

Shareholders' equity attributable to Hydratec shareholders

59,189

53,399

**Shareholders' equity**

59,189

53,399

Personnel-related provisions

1,351

1,358

Other provisions

7,862

3,117

Deferred tax liabilities

1,568

1,250

Borrowings

18,725

13,629

Other financial instruments

719

463

**Total provisions and non-current liabilities**

30,225

19,817

Trade payables

25,132

16,444

Current tax liabilities

755

818

Other taxes and social security premiums

2,105

2,321

Owed to banks

4,303

3,088

Other debts and accrued liabilities

46,173

42,395

**Total current liabilities**

78,468

65,066

**Total liabilities**

167,882

138,282

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

x € 1,000	Issued capital	Agio	Translation reserve	Hedge reserve	Other reserves	Un- distributed result	Share- holders equity
<b>Book value as at 1 January 2017</b>	573	5,177	– 363	– 604	37,725	5,882	48,390
Shareholder related changes:							
• Dividend distribution 2016					– 2,163		– 2,163
• Share issue Participation Plan	1	123					124
Other changes:					5,882	– 5882	
Result appropriation 2016							
<b>Unrealised results</b>				186			186
Hedge reserve							
<b>Realised results</b>							
Result 2017						7,129	7,129
Translation reserve			– 267				– 267
<b>Book value as at 31 December 2017</b>	574	5,300	– 630	– 418	41,444	7,129	53,399
Shareholder related changes:							
• Dividend distribution 2017					– 2,886		– 2,886
• Share issue Participation Plan	1	119					120
• Share issue takeover NatureForm	3	403					406
Other changes:							
Result appropriation 2017					7,129	– 7,129	
<b>Unrealised results</b>							
Hedge reserve				– 228			– 228
<b>Realised results</b>							
Result 2018						8,507	8,507
Translation reserve			– 46		– 83		– 129
<b>Book value as at 31 December 2018</b>	578	5,822	– 676	– 646	45,604	8,507	59,189



# CONSOLIDATED CASH FLOW STATEMENT

x € 1,000

	2018	2017
<b>Result from normal business operations before taxes</b>	7,765	7,308
Adjusted for:		
• Depreciation and amortisation	6,271	5,456
• Profit from advantageous sale of companies	– 1,263	0
Financial income and expenses	1,165	1,003
Changes in provisions	3,158	– 1,149
Changes in working capital:		
• Inventories	– 4,379	– 3,739
• Current receivables	– 4,214	– 7,499
• Current liabilities	4,154	14,793
	– 4,439	3,555
Financial income and expenses paid	– 1,291	– 970
Profit tax paid	– 1,856	– 1,245
<b>Cash flow from operating activities</b>	9,510	13,962
Investment in intangible assets	– 476	– 703
Investments in tangible assets	– 13,225	– 7,319
Investments in financial assets	– 438	22
Acquisition participations	– 1,851	
Net cash included in acquisition participations	980	
<b>Cash flow from investment activities</b>	– 15,010	– 8,000
Dividend paid to Hydratec shareholders	– 2,886	– 2,163
Repayment of borrowings	– 2,489	– 1,619
Proceeds from borrowings	7,438	3,448
<b>Cash flow from financing activities</b>	2,063	– 334

CONSOLIDATED CASH FLOW STATEMENT

x € 1,000

	2018	2017
<b>Net cash flow</b>	– 3,437	5,628
Currency translation differences	– 183	– 155
<b>Change in cash and cash equivalents</b>	– 3,620	5,473
Cash and cash equivalents as at 1 January	6,823	1,350
<b>Cash and cash equivalents as at 31 December</b>	<b>3,203</b>	<b>6,823</b>
<b>Cash and cash equivalents</b>		
Cash and at bank	7,222	1,914
Current account bank	– 399	– 564
<b>Total 1 January</b>	<b>6,823</b>	<b>1,350</b>
Cash and at bank	3,504	7,222
Current account bank	– 301	– 399
<b>Total 31 December</b>	<b>3,203</b>	<b>6,823</b>

## INDEPENDENT AUDITOR'S REPORT

With regard to the independent auditor's report we refer to page 80 to 85 of the official Dutch 2018 annual report, which is available on [www.hydratec.nl/investor-relations](http://www.hydratec.nl/investor-relations).

## FIVE YEAR SUMMARY

Amounts in thousands of euro unless stated otherwise

	2018	2017	2016	2015	2014
<b>Profit and loss account</b>					
Net revenue	208,388	169,323	162,374	113,437	91,598
Operating profit	8,930	8,311	8,171	7,830	6,224
Net profit	8,507	7,129	5,882	6,876	3,566
Net profit to be allocated to shareholders	8,507	7,129	5,882	10,784	6,873
<b>Cash flow</b>					
Cash flow from operating activities	9,510	13,962	5,760	7,550	9,383
Cash flow from investing activities	- 15,010	- 8,000	- 8,085	- 3,743	7,868
Cash flow from financing activities	2,063	- 334	- 524	- 9,455	- 3,718
Net cash flow	- 3,437	5,628	- 2,849	- 5,648	1 3,532
<b>Balance sheet</b>					
Equity attributable to Hydratec shareholders	59,189	53,399	48,390	42,791	35,828
Group equity	59,189	53,399	48,390	42,791	38,280
Balance sheet total	167,882	138,282	118,463	120,178	77,725



Amounts in thousands of euro unless stated otherwise

	2018	2017	2016	2015	2014
<b>Key ratios</b>					
Operating profit as a % of revenue	4.3%	4.9%	5.0%	6.9%	6.8%
Return on invested capital <sup>1</sup>	9.6%	11.8%	9.5%	5.3%	11.9%
Return on shareholders' equity <sup>2</sup>	15.1%	14.0%	11.7%	7.9%	12.3%
Solvency <sup>3</sup>	35.3%	38.6%	40.8%	35.6%	49.3%
<b>Information per ordinary share (in euro)</b>					
Operating profit <sup>4</sup>	6.96	6.52	6.55	6.41	5.09
Equity attributable to Hydratec shareholders	46.13	41.92	38.81	35.01	29.32
Profit per share continued activities	6.63	5.60	4.72	5.21	2.91
Profit per share including discontinued activities	6.63	5.60	4.72	8.82	5.62
Profit per share excluding one-time income	6.63	5.60	4.27	2.52	3.34
Dividend	2.70	2.25	1.70	1.37	1.37
Price at year end	63.00	55.03	44.30	32.00	31.65
Lowest price	54.00	44.06	30.35	30.77	24.30
Highest price	74.00	64.00	48.00	36.60	34.95
<b>Other information</b>					
Average number of employees	956	787	788	519	318
Net revenue per employee	218.1	215.1	206.1	218.6	288.0
Salary costs per employee	56.9	56.2	56.3	57.0	58.4

<sup>1</sup> 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).

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

<sup>3</sup> Shareholders' equity as a % of the balance sheet total.

<sup>4</sup> Continued activities.

## CONTACT DETAILS

### HYDRATEC INDUSTRIES NV

CEO B.F. Aangenendt  
CFO E.H. Slijkhuis  
Address Nijverheidsweg Noord 59B  
3812 PK Amersfoort  
The Netherlands  
Telephone +31 (0)33 469 73 25  
E-mail info@hydratec.nl  
Internet www.hydratec.nl

### AGRI & FOOD SYSTEMS

#### Pas Reform BV

Managing Director H. Langen  
Address Bovendorpsstraat 11  
P.O. Box 2  
7038 ZG Zeddam  
The Netherlands  
Telephone +31 (0)314 65 91 11  
E-mail info@pasreform.com  
Internet www.pasreform.com

#### Lan Handling Technologies BV

Managing Director K. van de Wiel  
Address Jules Verneweg 123  
5015 BK Tilburg  
The Netherlands  
Telephone +31 (0)13 532 25 25  
E-mail info.tilburg@lanhandling.com  
Internet www.lanhandling.com

### PLASTIC COMPONENTS

#### Helvoet Rubber & Plastic Technologies BV

Managing Director F. de Jonge  
Address Centaurusweg 146  
5015 TA Tilburg  
The Netherlands  
Telephone +31 (0)13 547 86 00  
E-mail info.tilburg@helvoet.com  
Internet www.helvoet.com

#### Timmerije BV

Managing Director  
(interim) B.F. Aangenendt  
Address Schoolweg 29  
P.O. Box 3  
7160 AA Neede  
The Netherlands  
Telephone +31 (0)545 28 38 00  
E-mail info@timmerije.com  
Internet www.timmerije.com



Address

Nijverheidsweg Noord 59B  
3812 PK Amersfoort  
The Netherlands

Telephone

+31 (0)33 469 73 25

E-mail

[info@hydratec.nl](mailto:info@hydratec.nl)

Internet

[www.hydratec.nl](http://www.hydratec.nl)

