



TenCate Holding

Tennessee Acquisition Holding B.V.

Annual Review 2018

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Key figures 2018

For the financial year ending on 31 December, in millions of Euros	2017	2018
Profit and loss account		
Revenues (of the continued operations)	1,029	1,059
EBITDA before exceptional items (of the continued operations)	106	116
EBITDA margin (%)	10.3	11.0
Debt		
Net debt	586.5	433.5
Consolidated cash flow		
Cash flow from operating activities *	90	-24
Cash flow from investing activities **	-89	854
Average number of FTE's	3,578	3,894
Of which in the Netherlands	794	838
Business group revenues		
<i>TenCate Protective Fabrics</i> ***	281	249
<i>TenCate Advanced Armor</i>	81	85
<i>TenCate Geosynthetics</i>	344	333
<i>TenCate Grass</i>	322	375

*) 2018: including costs in connection with the divestment of TenCate Advanced Composites

**) 2018: including net cash proceeds from the divestment of TenCate Advanced Composites

***) 2018: excluding TenCate Outdoor Fabrics

Report of the Executive Board

The Executive Board hereby presents its management report for the financial year ended December 2018.

General information

Tennessee Acquisition Holding B.V (TenCate Holding or the Company) was founded on 7 July 2015. The Company holds 100% of the shares of the subsidiary Tennessee Acquisition B.V. (the "Acquisition Company"). The Acquisition Company holds 100% of the shares in Koninklijke Ten Cate B.V., which is its only shareholding.

The Company and its direct and indirect subsidiaries and joint ventures are referred to collectively as "the Group" or "TenCate" and operate through five global TenCate business groups:

- TenCate Protective Fabrics
- TenCate Advanced Composites (until July 17, 2018)
- TenCate Advanced Armor
- TenCate Geosynthetics
- TenCate Grass

The company TenCate Outdoor Fabrics B.V. has been demerged from the business group TenCate Protective Fabrics and is operating on an individual basis as a subsidiary of TenCate Nederland B.V. For financial reporting purposes the figures of TenCate Outdoor Fabrics B.V. have been included in those of Holding & Services. These figures have no material impact on the consolidated figures of the Group.

Each of the business groups serves specific and diverse (niche) markets and geographies with individual demands, performance specifications and market dynamics. The business groups are active as producers and suppliers of materials and systems with the principal aim of protecting people and the environment and providing sustainable solutions by developing materials with specified characteristics.

The predominant technologies consist of fiber / textile technology, coating and chemical technology.

The business groups have production locations predominantly in the United States of America and Europe and are also located in Asia (China, Malaysia) and Australia.

Financial information and key developments in 2018

Market conditions for TenCate in general continued its favorable trend. The ongoing increase in risk awareness in end markets generated higher demand for both personal as well as environmental protection. On the other hand, the positive economic climate also resulted in price increases for raw materials and to some extent in shortages of supply. This resulted temporarily in margin pressure, delays in delivery times and to some extent increased working capital. The raising of US import duties caused side effects for some of the TenCate companies, mainly involving a temporary increase in inventory and a need for new price increases. In some cases, no local US sourcing will be available.

The increased level of capital expenditure for the continuing business groups, to the amount of € 38.3 million (2017: € 37.8 million) with the aim of increasing production volume, enhancing efficiency and reducing the environmental footprint continued during 2018. These investments are creating a solid basis for further future growth.

The main strategic topic was the further development of the TenCate Grass group in strengthening its downstream market footprint and geographical franchise. This development is in line with a further consolidation of the global synthetic turf market. Through several "bolt-on" acquisitions, especially in the United States of America, important steps have been taken to build a solid market position in both the sports market and the rapidly growing landscaping market.

TenCate Geosynthetics executed a major upgrade of the organization. Production in Asia has been expanded and the major investment in nonwoven production in the US came on steam in the third quarter of the year. The transfer of the Dutch production site to a new location was completed at the beginning of the second half of the year.

At the beginning of 2018 the divestment of the TenCate Advanced Composites group was announced. Agreement was reached with Toray Industries Inc. in March resulting in a transaction with an enterprise value of € 930 million. Toray will be committed to a further acceleration of this company's growth in the coming years. This transaction was completed in July 2018.

Results and cash flow

Revenues (of the continued operations) increased to € 1,059.0 million (2017: € 1,029.2 million). A good sales performance was recorded in the safety wear fabrics markets for industrial applications, armor materials and in the downstream business of the Grass group, where TenCate Grass was able to increase its market presence.

Adjusted EBITDA (of the continued operations) increased to € 116.4 million (2017: € 106.0 million). The TenCate Advanced Armor group showed a continued increase in its results due to a recovery of the number of vehicle

armorings projects in the revenue mix, ongoing strong demand in Europe and internal efficiency measures. TenCate Geosynthetics and TenCate Grass had to cope with ongoing price increases for raw materials, which caused temporary margin pressure.

Exceptional items (of the continued operations) totaling € 29.7 million (2017: € 20.5 million) were (among other items) were mainly the result of consulting costs, exceptional projects, and organizational restructurings.

Profit tax amounted to - € 15.0 million (2017: € 0.1 million). Following the disposal of TenCate Advanced Composites (TCAC Group), the previous estimates of future taxable profits of the Dutch fiscal unity have been substantially reduced. As a consequence, a relatively high impact was recorded on the reported profit tax amount as a result of a valuation allowance in connection the deferred tax asset (DTA).

Net income of TenCate Holding amounted to € 627.6 million (2017: € 26.4 million). This amount includes the total transaction result (book profit plus the pro-rata net result of the TCAC group) from the disposal of the TCAC Group amounting to € 632.7 million.

The net cash flow from operating activities amounting to - € 23.9 million (2017: € 90.0 million) was impacted by operational costs with respect to the Composites divestment of € 68m in combination with other one-off items and increased inventories due to higher raw material prices and safety stock, partly offset by further EBITDA growth.

Following the divestment of TenCate Advanced Composites, a total amount of € 673 million (2017: € 141 million) was paid as interim profit distribution and capital repayment to the shareholders of the Company.

Finance

On November 13, 2015 Tennessee Acquisition BV entered into a Senior Facilities Agreement in order to finance the acquisition of Koninklijke Ten Cate B.V. and its subsidiaries. During 2018, following the divestment of TenCate Advanced Composites, a redemption of the Term Loans took place for an amount of € 206 million. At year end a US\$ 161 million Term Loan and a € 273 million Term Loan were outstanding, and € 38 million was drawn from the Revolving Credit Facility.

Net debt at year-end amounted to € 433.5 million (2017: € 586.5 million). At year-end the net debt / EBITDA ratio amounted to 3.5, well within the covenants.

Business activities

Group company	Markets	Products	Customers
TenCate Protective Fabrics*	Industrial companies, such as Oil & Gas Industry, Chemical industry, Utilities. First response market Military market	Protective fabrics for the workwear and safety wear market.	Garment manufacturers Industrial laundries Garment rental companies
TenCate Advanced Armor	Law enforcement market Defense market Security market	Body armor plates, shields Vehicle armor kits Aerospace armor kits Armored parts Active protection systems	OEMs in the defense industry Armor companies (system suppliers) Body armor vest manufacturers
TenCate Geosynthetics	Infrastructure & construction Water & environment Agriculture	Reinforced geotextiles (wovens and non-wovens) and grids TenCate Geotube® system	Construction and road building companies Engineering companies Wholesale companies
TenCate Grass	Sports and leisure market Landscaping market	Synthetic turf yarns and backing materials Synthetic turf systems Sub-base materials	Carpet manufacturers Installers and contractors FIFA and other sport institutions
TenCate Outdoor Fabrics	Leisure markets, home decoration and outdoor living	Outdoor fabrics for camping and sun awnings	Tent manufacturers Sun awning system suppliers

Main developments

TenCate Protective Fabrics

Revenues for 2018 amounted to € 249.2 million (2017: € 280.8 million). Revenues in defense markets are order driven and dependent on delivery programs. The sales level of these programs decreased in 2018 compared to the previous year. Growth came particularly from industrial markets, especially in Europe, which partially compensated the overall reduction in military sales. Historically the group's military sales have been an important part of group results. Due to the potential fluctuations in sales and related results, a lot of effort is being focused strategically on creating a more balanced end-market profile in the various applications of protective fabrics globally.

TenCate Advanced Armor

Important organic growth was achieved with revenues of the Armor group in 2018 amounting to € 84.5 million (2017: € 81.4 million). A further positive development was the improved balance between personal and vehicle protection programs. In particular, aerospace projects showed further growth and the number of vehicle protection programs also increased. The fact that the requirement for active blast protection in future vehicle armoring programs is receiving more attention is also positive. TenCate is operating at the forefront of this new requirement. Strengthening its engineering capabilities has been a key strategic target. Due to this add-on capability the group is increasingly involved in consultancy activities for designing survivability systems in armored vehicles. The Armor group aims to develop its capabilities in the US further, as it did in Europe in the past, in order to increase its critical mass and added value.

TenCate Geosynthetics

Revenues in financial terms in 2018 amounting to € 333.2 million were below those of the previous year (2017: € 343.6 million). Improving sales in the second half of the year, were not sufficient to compensate for the less favorable performance at the start of the year. The US\$ rate had a negative impact on the full year revenues. In volume terms there was a slight overall growth during the year.

An important capital expenditure program was implemented in 2018. The Asian operations are being streamlined and production capacity has been extended in order to reduce costs and improve efficiency. The geosynthetics market is to a large extent a "local for local" business. Delivery performance is a key strategic topic.

In order to increase added value, the Geosynthetics group has improved its organizational set up with a solution driven approach to selected end markets such as engineered solutions, the reinforcement and paving market and the water management market (filtration, erosion control, coast protection / land reclamation). These are key examples of a solution driven market approach.

TenCate Grass

Total revenues of TenCate Grass amounted to € 374.7 million (2017: € 322.4 million). Revenues of the Grass group mainly grew as a result of acquisitions. The Grass group continued its strategic developments towards becoming a leading integrated global company in the synthetic turf industry. In 2018 the Grass group completed four small to medium sized acquisitions, all in the United States of America. These acquisitions mainly relate to contracting and installation activities and will strengthen the downstream presence of the Grass group in the US.

Increasingly, the large multinational suppliers of synthetic turf systems are relying much more on internal supply and distribution to end-users. In selected local markets TenCate also cooperates through dedicated local independent suppliers and installers. The strategy is built around strong brands in the key market segments. The entire market is becoming more aware of differences in product quality, end use specifications and aspects of sustainability, which is evidence of a market that is rapidly becoming more mature.

TenCate Grass is devoting a lot of energy to a sustainable and circular business model. Examples are fully recyclable woven infill free systems and hybrid systems.

Strategy, organization and governance

The Company acts as a holding entity for its (indirect) shareholdings in TenCate.

The Company's strategy is to support the controlled growth and value enhancement of the individual TenCate business groups, whilst maintaining a risk averse overall risk appetite. This also means maintaining a balanced financial structure for the entire Group and having adequate financial resources to realize growth. The Company does not actively pursue a divestment strategy, but creating strategically well positioned and cost efficient attractive standalone corporate entities is a key element of its corporate policy. Bearing in mind the nature of the ultimate (private equity) shareholders, divestments which are also for the long-term benefit of the individual business group may take place from time to time. In 2018 this was the case for TenCate Advanced Composites.

During 2018 a decentralized structure was further implemented whereby the business groups operate under global group management with business group holding companies established under Dutch law. TenCate has been in the process of transferring previously centralized holding functions, such as corporate financial control & reporting, tax, legal, credit management and treasury, to the business groups. At the end of 2018 this process reached the final phase. Critical positions in the business groups have been strengthened and much emphasis has been placed on enhancement of the management capabilities and the quality of the workforce. Many of the holding specialists have found new positions within the business groups. This structure creates a higher degree of entrepreneurship and market focus in the various businesses and the business groups will be better equipped to respond effectively to market trends and customer demands.

Group entities operate under their own group management (CEO, CFO), supported by Advisory Boards and supervised by the Executive Board of Koninklijke TenCate. During the fiscal year, the Executive Board of Koninklijke TenCate B.V. was supervised by the Supervisory Board which took office at the beginning of 2016. The Supervisory

Board of Koninklijke TenCate B.V. currently consist of two independent members and two shareholder representatives. TenCate Holding has no Supervisory Board.

Although the boards respect the legal principle for large corporations of a balanced distribution of female and male members, the relatively small Executive Board of the Company only consist of male members. Members of the Supervisory Board of Koninklijke TenCate B.V. are a combination of representatives of shareholders and two continuing board members of the former Koninklijke TenCate N.V. Due to the size of the boards and the relative short period of their existence since the delisting, this legal principle has not yet come into effect. During 2018 there were no vacancies or replacements of members in the boards.

Technological innovations and R&D

TenCate's technological innovations cater for today's needs for safe and sustainable solutions. "Protecting people" is TenCate's promise. Materials, modules and systems from TenCate make a difference and are the means of fulfilling social, ecological and economic needs and expectations. The production of innovative materials which are lightweight, increase safety, offer more comfort and comply with new rules and regulations gives TenCate an "expert" profile in its market niches. TenCate's innovative capabilities and flexibility will be used to provide solutions that deliver a positive contribution to the demands of end markets in connection with environmental aspects, sustainability and safety.

Total research and development expenses including capitalized development costs were € 15.3 million in 2018 (2017: € 16.6 million).

Corporate Social Responsibility

All of the TenCate groups formulate their own CSR policies, which are specifically aimed at the nature of the business environment, operational and reputational risks and their individual stakeholder approach. The business groups have adopted policies and a code of conduct which in general have been derived from the existing corporate policies of TenCate and will be updated on a regular basis.

The Group is well rooted in society, especially in the Netherlands with a history dating back before 1704. As such TenCate has proven to be a stable and sustainable company, which plays an important role in local communities. TenCate also has a long-standing history outside the Netherlands and plays an important part in local communities in which it seeks to be a reliable employer. In the Netherlands TenCate is part of the collective labor agreement of the Dutch textiles industry sector.

The TenCate business groups develop and produce technical textile materials, which contribute positively to the security and safety of people and their living environment. In this context TenCate companies formulated their policies to minimize their impact on the environment and minimize the use of resources such as water and energy. These policies include waste reduction, the recycling of raw materials and the development of end products which can be recycled in any form.

Sustainability is part of the TenCate value proposition. All TenCate products and systems contribute specifically to sustainability and have intrinsic advantages over traditional products due to weight savings, CO2 footprint reduction, fuel savings and increased safety and protection.

Sustainability is also a key element in the production processes of TenCate materials. A growing part of TenCate's offering includes aspects of a circular economy. Reducing energy use and water consumption is a key element of saving costs, as well as reducing the environmental footprint.

Many TenCate businesses are ISO 14001 certified. This also provides an accepted standard for environmental and safety control of key processes. Processes are monitored constantly as part of operational risk management within all TenCate market groups.

Personnel

The Company and the Acquisition Company have no employees, apart from the board members. At the end of 2018, TenCate employed 3,658 FTE excluding temporary staff (2017: 3,196).

TenCate business groups are fully responsible for their own HR-related tasks. During 2018 a combined works council was in place in the Netherlands, monitoring social and employment matters and related topics.

During 2017 a decision was taken by TenCate's pension fund to liquidate the fund and transfer all pension rights to the Dutch textile industry sector pension fund (MITT). In consultation with all stakeholders a new pension scheme has been adopted, which is at least equal to the existing pension scheme of TenCate. Some of the conditions of the "standard" pension scheme as applied by MITT were improved and/or amended in order to comply with the requirements of the transition. The central works council gave its consent for the transfer of the pension rights to MITT pension fund and to the new pension scheme which became effective as of January 1, 2018.

Risk management

Risk management based on existing holding policies adapted if necessary, to business group standards, has been transferred to the business groups in the course of 2018. This has no effect on the overall risk profile, since similar checks and balances remain in place, as in the past. The main risks are related to floating interest rates, currency effects and the impact of raw material prices. Interest rate and currency risks are actively monitored and hedged if necessary. Raw material prices are not hedged in the market, since the financial instruments do not really match with the risk profile and variations in prices will be transferred to customers within a relatively short period of time. The effect of changes in raw material prices may have a temporary financial effect on profitability.

The Group's risk policy can be qualified as risk averse. The policies provide a well-balanced approach for the main risks the Group faces:

- Strategic and market risks: the major risk factor in demand for TenCate products is regarded to be the level of government expenditure. Furthermore, risk arises as a result of price increases in some of the raw material costs. These risks are partly mitigated by adding flexibility to cost structures and by investigating the use of alternative raw materials
- Operational risks: operational risks are monitored at corporate level as well at local level operational risks are monitored. Corporate risk management deals with numerous matters relating to the Company's liabilities, including product liabilities and insurance cover. A centralized insurance function, monitoring insurance cover, is in place. IT risks are monitored at the level of the business groups.
- Compliance risks: the main items such as business ethics, laws and regulations, intellectual property and export controls are controlled under a "zero tolerance" policy. Furthermore, the Group has a whistleblower scheme, a compliance officer and annual letters of representation are requested. Compliance risk is monitored both at the central level as well as on the level of the business groups.
- Financial risks: the solvency of the Group improved in 2018 from 22% to 25% and the debt ratio at the end of the year is on a relatively conservative level of 3.5 (2017: 4.0). Identified financial risks relate to the availability of credit facilities, interest and exchange rate fluctuations, tax, impairment and counterparty credit risks. These risks are monitored by the finance, tax and treasury departments amongst others. When deemed necessary, risks are mitigated by such means such as insurance and hedging instruments. In 2018 interest rate risk was hedged with interest rate caps in line with the internal principles of risk management. However, since a further reduction of the debt position is expected, the time horizon for hedging interest risk was reduced from three to two years. The use of other financial instruments was not material in 2018.

Outlook

In general, the key markets of the TenCate business groups show a positive trend, with a continuation of the improved performance during the second half of 2018. Labor markets globally will remain tight and the ability to retain and attract the right quality of employees will be key.

Further upward price pressure and risks to the availability of raw materials are expected to continue under the current market conditions. After two years of relatively high capital expenditure, investments in fixed assets will decrease. A continued focus will be put on increasing efficiency and reducing waste, energy consumption and other production costs in order to realize healthy further profit growth.

A focus on working capital management, lower capex and increased profitability will have a positive impact on free cash flow. It is expected that the financial leverage will decrease further during 2019.

Almelo,

April, 4, 2019

Executive Board

J.H.L. Albers, CEO

F.R. Spaan, CFO

