



Annual Report
Vereniging HZPC
2016/2017

Colophon

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This document is an English translation of the original.
In the case of any discrepancies between the English and
the Dutch text, the latter will prevail.

Table of Contents

- Personal details 4
- Report of the Board** 5
- Financial statement** 9
 - Balance sheet 10
 - Profit and loss account 11
 - General notes to the annual report 12
 - Notes to the balance sheet 15
 - Notes to the profit and loss account 16
- Other information** 17

Personal details

Board

J.P. Lindenbergh, Chairman	Wehe-den Hoorn
J.J.M. van der Heijden, Vice-Chairman	Kruisland
P.C.M. Haenen, Secretary	Luttelgeest
S.G. Andringa	Oosterbierum
S. Wijma	Harlingen

Board of Growers

J. Bonnema, Chairman	Ens
N. Hoornsman, Vice-Chairman	Wieringerwerf
N. Giliam, Secretary	Pingjum
R. Clevering	Den Andel
L. Dijkstra	Anjum
E. Maerman	Emmeloord
G. Miedema	Stiens
N.J. Slot	De Cocksdorp
A. Vael	Zaamslag
J. van 't Westeinde	Nieuwolda
P.K. Westerhuis	Usquert

Board of Breeders

P. Thijssen, Chairman	Slochteren
K. Hiddema	Emmeloord
F.P. van der Zee	Kloosterburen
M. Maes-de Vries	Marknesse
Y.P. van der Werff jr .	Oude Bildtzijl

Supervisory Committee

A. van Zadelhoff, Chairman	Mantgum
J.H. te Raa,	Blankenham
T. de Vries,	Hallum

Young Members Group

A. Leber, Chairman	Emmeloord
S. de Bruyckere, Secretary	Wieringerwerf
H. Anema	Nes
A. Bos	Oldehove
D. Bouwsema	Eenum
G.J. Haenen	Luttelgeest
V. van den Hoek	Creil
P. Meijer	Winsum
R. van de Noort	Hoeven
T. Sinnema	Dronrijp
G. Smits	St. Annaparochie
R. Wiersema	Groningen
J. van der Zee	Tzummarum

Report of the Board

The Association holds 783,725 shares in the Company and is therefore sole shareholder of HZPC Holding B.V. The name HZPC Holland B.V. was changed to HZPC Holding B.V. as of 1 July 2016. The Association has issued all the shares in the form of certificates to natural persons and legal entities that comply with specific requirements. On behalf of its members, the Board carries out the duties of shareholder at the General Meeting of Shareholders of HZPC Holding B.V. The activities of the HZPC Group are focused on the potato. HZPC carries out research, breeds varieties and grows seed potatoes, ware potatoes and mini-tubers.

Spreading of risks

Eighty percent of the purchases are based on variable contracts, which ensure relatively low-risk purchasing and sales positions. Sales could be influenced by phytosanitary barriers or political measures. These business risks, however, are spread across the more than 80 countries HZPC does business with, limiting the risk impact per country. HZPC often delivers large quantities of potatoes to its customers in a relatively short time frame. Although HZPC regularly uses collateral in the form of prepayments, LC's and bank guarantees, the result is sensitive to payment risks.

The provision of information is of crucial importance to managing the risks in the organisation. Properly functioning ICT systems are of great importance to this. Investment in this area will take place over the next few years. The export of seed potatoes and ware potatoes takes place almost exclusively in euros. This makes any risks linked to fluctuating exchange rates low. The risks associated with fluctuating exchange rates have, however, increased due to international growth. This increase is also due to participations in countries outside the Euro zone. The valuation of these participations is partially dependent on the development of the local currency.

Strategy and structure

This year, the Board of the Association, together with the Supervisory Board and the Executive Board of HZPC Holland B.V. paid particular attention to the R&D strategy. The strategic research project 'hybridisation' is of great long-term importance to this. The Board fully supports the investments that are made in this research project and is aware that these developments may lead to a different business model for HZPC Group. Nevertheless, HZPC Group wishes to take the lead in these developments rather than playing a waiting game. The autonomy and continuation of the HZPC organisation are a guiding principle for the Board.

Results

HZPC Holland B.V. achieved a net result of 8.4 million euros for the fiscal year 2016/2017. The return on shareholders' equity is 18.3%. The Supervisory Board has made 65% of the net revenue of the company available to the shareholders. This is consistent with an amount of 5.5 million euros. This means a dividend of 7 euros per share certificate. This dividend has been incorporated in the annual accounts of the Association.

In 2016/2017 the prices of ware potatoes in Western Europe were higher than in the previous year. The size of the European seed potato market has grown and worldwide demand has increased as a result of increasing demand by the processing industry. The market in the Middle East and North Africa was difficult but comparable to last year due to the political situation and oil prices. The Russian market was very difficult. Activities in China and India demand lots of attention, which they are receiving. In India we saw lower prices of ware potatoes as a result of demonetisation and, consequently, a lower demand for seed potatoes. All things considered, HZPC managed to increase the volume of seed potatoes sold or grown under licence to a new record. The turnover and gross margin have also been increased further, which means the good year we had in 2015/2016 has been out-performed by an even better year in 2016/2017. As a result, the long series of successful years continues.

Growth figures

Over the last decade HZPC has seen constant growth in tonnage. Seed potatoes sold and tons produced under licence have been aggregated for the total tonnage. In 2013/2014, HZPC sold or licensed to cultivate 675,000 tons. In 2014/2015 that figure dropped to 642,000 tons but HZPC has not changed its long-term plans for continued growth. In 2015/2016 HZPC saw further growth to 677,000 tons. A record was set in 2016/2017 of nearly 800,000 tons; this is the result of autonomous growth and acquisitions in previous years. This would bring the 5 year average figure for growth in volume above the long-term objective of 4% once again.

Year	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Net profit (x EUR 1,000)	1,016	9,199	4,494	6,998	8,477
Return on Equity (in %)	2.6	23.7	10.6	15.9	18.3
Net profit per share (x EUR 1)	1.30	11.74	5.73	8.93	10.78
Dividend per share (x EUR 1)	1.00	7.50	3.75	5.75	7.00
Dividend as % of the profit (in %)	77	64	65	64	65
Share price as of 30 June (x EUR 1)	77.90	93.5	113.15	136.90	165.65
Dividend as % of that price (in %)	1.3	8.0	3.3	4.2	4.2

Acquisition

2016/2017 was the year of focusing mainly on integrating acquisitions from previous years. In 2016/2017, HZPC also reached an agreement with the owner of the 20% of shares in HZPC America Latina S.A. With this, HZPC America Latina S.A. has become a 100% participation of the HZPC SBDA B.V. This takeover strengthens HZPC's position in South America in line with the strategy.

Legal restructuring of HZPC

The legal restructuring was completed on 1 July 2016. HZPC now consists of a holding company with five subsidiary companies:

- HZPC SBA Europa B.V.
- HZPC SBA Development B.V.
- HZPC IPR B.V.
- HZPC Research B.V.
- Stet Holland B.V.

In 2016/17, Stet Holland B.V. set up a new company in Russia through the acquisition of KWS Potato.

General meeting of shareholders

The HZPC Holland B.V. and HZPC Holding B.V. Articles of Association stipulate which decisions have to be presented to the General Meeting of Shareholders and, therefore, to the Board for approval.

The General Meeting of Shareholders/Certificate Holders was held on one occasion last year. This meeting's agenda included the progress of the company's results. The Board met on five occasions and two General Meetings of Shareholders were held.

Appointments

At the General Meeting of Shareholders of November 2016, Mr. J.R. de Jong resigned. Mr. S.G. Andringa was appointed to the Board of the Association for a period of four years.

In November 2016 Mr. P. Thijssen was chosen to replace Mr. A. Doppenberg as chairman in the Board of Breeders. In March 2017, Mr. K. Hiddema joined the Board of Breeders.

In the Supervisory Board Mr. A.T. Oosterhof resigned in May 2017 due to the expiration of the regular eight-year term of office. Mr. Oosterhof was thanked on behalf of the Association for his very constructive contribution to the company in recent years. Mr. Oosterhof has now been succeeded by Mr. C.J. Biemond. This Council recommendation was approved by the Association in the GMS of May 2017.

In February 2017 Mr. C.J. Biemond resigned as chairman of the Board of Growers and was succeeded by Mr. J. Bonnema. The Vice-Chairman also resigned in February 2017 and was succeeded by Mr. N. Hoonsman. Mr. N.J. Slot and Mr. P.K. Westerhuis joined the Board of Growers in May 2017.

Stock trading days

Two stock trading days for HZPC certificates were held this financial year as well. The certificate share price rose by 10% on both occasions to a price of 165.65 euros. At the end of the 2016/2017 financial year, the Association has no certificates in its possession. The Supervisory Committee oversees the implementation of the procedures for trading in certificates as laid down in the stock trading regulations.

This financial year, ten grower-certificate holders have taken advantage of the opportunity to take out a loan for the purchase of certificates. Two loans have now been fully repaid. Currently, 53 grower-certificate holders are participating in this scheme. The total amount involved was 302,518 euros (348,894 euros last year) on the balance sheet date.

The total number of certificate holders has remained almost the same. There were 1,305 certificate holders as of 30 June 2017, one fewer than a year before. The number of members of the Association is currently 1,014 (78% of the number of certificate holders). The organisation of the stock trading days in the 2016/2017 financial year was conducted by ING.

Financial year 2016/17

The financial year 2016/17 shows a neutral operating result for the Association. This is due to the commitment by HZPC Holding that it will fully reimburse the Association's expenses. Now that the Association no longer owns any certificates, the income will be limited to the interest received on the cash and cash equivalents. The representative boards of HZPC growers and breeders regularly met with the HZPC Executive Board and HZPC staff over the past financial year. On these occasions, the HZPC arrangements with growers and breeders were reviewed and, where necessary, adapted to the developments in the sector and in the company.

Finally, the Board wishes to thank everyone for their efforts during the past financial year.

Joure, 5 October 2017

On behalf of the Board,

J.P. Lindenbergh, Chairman
P.C.M. Haenen, Secretary

Financial statement

Balance sheet

(after result appropriation)

x eur 1,000	Explanatory notes	30-06-2017	30-06-2016
ASSETS			
Fixed assets			
Financial fixed assets			
Shares of HZPC Holding B.V. on behalf of certificate holders	1	15,675	15,675
Receivables from certificate holders	2	302	349
Total fixed assets		15,977	16,024
Current assets			
Receivables			
Dividend to be received from HZPC Holding B.V.	3	4,663	3,830
Current account of HZPC Holding B.V.		220	-
Other receivables		3	-
		4,886	3,830
Cash and cash equivalents			
Banks		98	656
Total current assets		4,984	4,486
Total assets		20,961	20,510
LIABILITIES			
Equity			
General reserve	4	318	318
Long-term liabilities			
Share certificates issued		15,675	15,675
Other long-term liabilities	5	302	349
		15,977	16,024
Current liabilities			
Dividend to be paid to certificate holders		4,663	3,830
Current account of HZPC Holding B.V.		-	308
Other debts		3	30
		4,666	4,168
Total liabilities		20,961	20,510

Profit and loss account

x eur 1,000	Explanatory notes	30-06-2017	30-06-2016
REVENUES			
Dividend return certificate of shares under HZPC Holding B.V. control		-	-
Other revenues		-	-
Total revenues		-	-
COSTS			
Other operating expenses	6	59	113
Charged to HZPC Holding B.V.		-59	-41
Total expenses		0	72
Interest income and charges		-	-
Net income		0	-72

General notes to the annual report

Foundation of the HZPC Association

The Association was founded on 29 November 1999 by means of a legal merger between Coöperatie De ZPC Pootgoed Belangen B.A. and Stichting Administratiekantoor Hetteema, which were both converted to form part of the Association.

The HZPC Association has the legal ownership of 100% of the shares in HZPC Holland B.V. in Joure.

Activities

The objective of the Association is:

- a. the issuing and management of share certificates in the Company;
- b. promoting certain material interests of its members/certificate holders;
- c. promoting certain material interests of its growers;
- d. promoting certain material interests of its breeders.

Reporting period

The financial year of the Association runs from 1 July up to and including 30 June.

Applied standards

The financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code.

Continuity

These financial statements have been prepared on the supposition of continuity.

PRINCIPLES FOR THE VALUATION OF ASSETS AND LIABILITIES AND THE GENERAL DETERMINATION OF THE RESULT

General

Unless stated otherwise, assets and liabilities are shown at nominal value.

An asset is included in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the value of the asset can be measured reliably. An obligation is included in the balance sheet if it is probable that the processing of it will be linked to an outflow of resources which contain economic benefits and the total amount can be reliably established. Income is included in the profit and loss account when an increase in future economic potential related to an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability. Expenses are processed when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability. If a transaction results in almost all or all future economic benefits and when all or virtually all risks relating to assets or liabilities transfer to a third party, the asset or liability is no longer included in the balance sheet. Furthermore, assets and liabilities are no longer included in the balance sheet starting from the time at which the conditions of probability of the future economic benefits and reliability in determining the value are no longer satisfied.

Determination of the result

Revenues and expenses are allocated to the period to which they relate. Revenues are accounted for if all important risks with regard to the commodities are transferred to the purchaser.

The operational expenses are borne by HZPC Holding B.V.

Rounding

The financial statements are presented in thousands of euros, the Association's functional currency.

Use of estimates

The preparation of the financial statements requires the Board to form opinions and to make estimates and assumptions that influence the application of principles and the reported values of assets and liabilities and of income and expenditure. Actual results may differ from these estimates.

The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are processed in the period in which the estimate is revised and in future periods for which the revision has consequences.

Financial instruments

Financial instruments include primary financial instruments such as receivables and payables, as well as derivative financial instruments. Reference is made to notes as per the balance sheet item for the accounting principles of the primary financial instruments.

Financial fixed assets

Equity interests and certificates where no significant influence is exercised are stated at cost or realisable value.

Loans are included at amortised cost using the effective interest method, less impairment losses.

The other financial fixed assets are valued at fair value on initial processing, plus transaction costs (if material). After initial processing, the assets are measured at amortised cost using the effective interest method, less any impairment losses.

Income from receivables and other securities allocated to financial fixed assets are accounted for in the year to which they relate.

Dividends are accounted for in the period to which they relate. Interest income is accounted for in the period to which it relate, using the effective interest rate method. Any profit or loss is accounted for under financial income or expenses.

Receivables

Receivables are measured at fair value on initial processing, plus transaction costs (if material). After initial processing, the assets are measured at amortised cost using the effective interest method, less a provision for non-collectable debts. These provisions are determined by individual assessment of the receivables.

Cash and cash equivalents

The liquid assets, insofar as not stated otherwise, are freely available to the Association.

Equity

Financial instruments taking the legal form of equity instruments are presented under equity. Payments to holders of these instruments are deducted from the shareholders' equity as part of the profit distribution.

Financial instruments taking the legal form of a financial obligation are presented under liabilities. Interest, dividends, income and expenditure with respect to these financial instruments are accounted for as financial income or expense in the profit and loss account.

Long-term and current liabilities

Long-term and current liabilities and other financial liabilities are valued at fair value on initial processing. After initial processing, the assets are measured at amortised cost using the effective interest method. If there are no premiums or discounts and transaction costs, the amortised cost equals the nominal value of the debt.

Revenue recognition

The Association includes the revenues under net sales when all significant rights to economic benefits as well as all significant risks with regard to the transactions are transferred to the purchaser, when delivery has taken place, the price has been or can be determined, and there is reasonable certainty that the sales price can be collected. These criteria are generally satisfied at the moment the product or service is delivered and acceptance, if required, is obtained.

Expenses

Expenses are allocated to the period to which they relate.
The operational expenses are borne by HZPC Holding B.V.

Tax on the result

The Association is not independently liable for taxation.

Notes to the balance sheet

1. Shares of HZPC Holding B.V. on behalf of certificate holders

Name	Statutory head office	Number of shares	Participation in %
HZPC Holding B.V.	Joure	783,725	100

There have been no changes in the number of HZPC Holding B.V. shares for certificate holders (783,725).
These shares are valued at the nominal value of 20 euros per share.

x eur 1,000	30-06-2017	30-06-2016
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2. Receivables from certificate holders

Loans issued to certificate holders for the acquisition of certificates

Opening balance	349	366
Additions: new loans	80	106
Deductions: repayments	-127	-123
Closing balance	302	349

The interest rate applied varies from 0.1% to 2.8%.
The term of the loan is a maximum of 5 years.

3. Dividend to be received from HZPC Holding B.V.

The HZPC Association receives a dividend from HZPC Holding B.V., after deduction of the dividend tax, and pays this to the certificate holders in full.

4. General reserve

Reserves

Opening balance	318	390
Deductions: the results of the financial year	-	-72
Closing balance	318	318

Proposal for result appropriation

At the General Meeting, it will be proposed to present the 2016/2017 result as follows: an amount of EUR 0 to be added to the other reserves.

5. Long-term liabilities

Other long-term liabilities

Subject to loan to HZPC Holding B.V. to finance the loans granted to certificate holders.

The loans are granted for a maximum of 5 years.

The interest rate applied varies from 0.1% to 2.8%.

Opening balance	349	366
Additions: new loans	80	106
Deductions: repayments	-127	-123
Closing balance	302	349

Notes to the profit and loss account

x eur 1,000	2016/2017	2015/2016
6. Other operating expenses		
Cost of trading days	27	72
Organisation costs	32	41
Bank charges	-	-
	59	113
Charged to HZPC Holding B.V		
Operational expenses	59	41

Post-balance sheet events

No significant financial events have occurred following the balance sheet date.

Joure, 5 October 2017

The board of the association,

J.P. Lindenbergh, Chairman

J.J.M. van der Heijden, Vice-Chairman

P.C.M. Haenen, Secretary

S.G. Andringa

S. Wijma

Other information

Profit distribution by virtue of the Articles of Association

The articles of association of the Association state the following with regard to the result.

Article:

- 3.3 To this end, the Association exercises its influence in the General Meeting of the Company.
- 3.4 The Association does not intend to distribute profits among its members.
- 3.5 The Association may not dispose of or pledge the shares in its possession, other than by way of cancellation, without the approval of the General Meeting.

Independent auditor's report

To: the Board of Vereniging HZPC

Report on the accompanying financial statements

Our opinion

We have audited the financial statements for the year ended 30 June 2017 of Vereniging HZPC ("HZPC Association" or "the Association"), based in Joure.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Vereniging HZPC as at 30 June 2017, and of its result for the year ended 30 June 2017, in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- 1 the balance sheet as at 30 June 2017;
- 2 the profit and loss account for the year ended on 30 June 2017; and
- 3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'our responsibilities for the audit of the financial statements' section of our report.

We are independent of Vereniging HZPC in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- report of the board;
- other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The board is responsible for the preparation of the other information, including the report of the board, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of the responsibilities for the financial statements

Responsibilities of the board for the financial statements

The board is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the board is responsible for such internal control as the board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the board should prepare the financial statements using the going concern basis of accounting unless the board either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so. The board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The the board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board;
- concluding on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern;

- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Groningen, 5 October 2017

KPMG Accountants N.V.

R.W. van Dijk RA

Vereniging HZPC

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