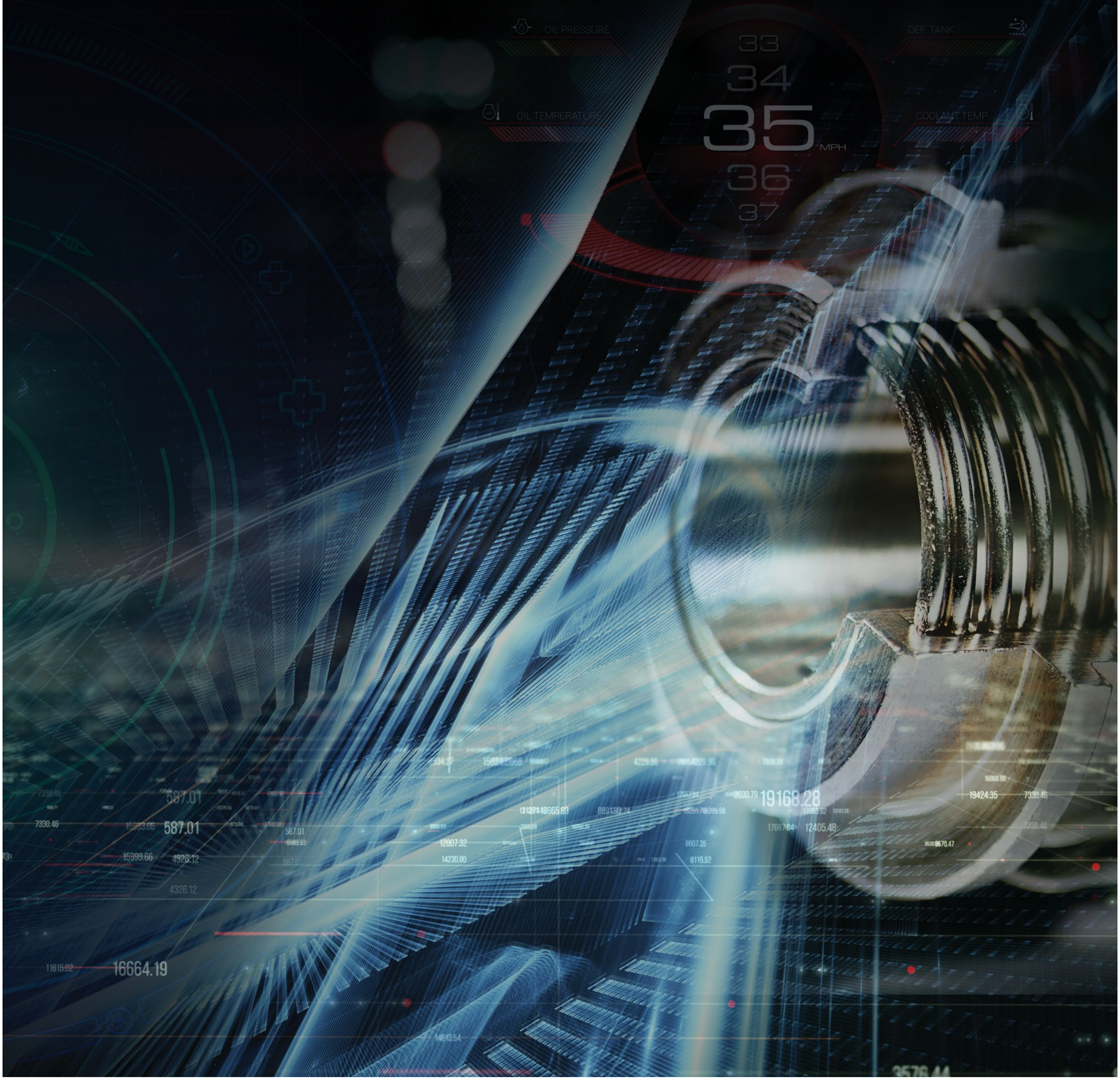
// VISION 2025

TECHNOLOGY LEADERSHIP // **SUPERIOR** PROFITABILITY // **FINANCIAL** STRENGTH



INTRODUCTION TO SNHY

Sun Hydraulics Corporation (“SNHY”), founded in 1970 in Sarasota, FL, is an industrial technology leader that develops and manufactures solutions for both the hydraulics and electronics markets.

In the hydraulics market, operating under the brand Sun Hydraulics, we are a leading manufacturer of high-performance screw-in hydraulic cartridge valves, electro-hydraulics, manifolds, and integrated package solutions for the worldwide industrial and mobile hydraulics markets.

In the electronics market, operating under the brands of Enovation Controls, Murphy, Zero Off and HCT, we are a global provider of innovative electronic control, display and instrumentation solutions for both recreational and off-highway vehicles, as well as stationary and power generation equipment.

SNHY At a Glance

2017 Revenue **$343 Million**
Up 74% over 2016

$77.1M
ADJUSTED OPERATING INCOME
Up 100% YOY

$49.4M
CASH FROM OPERATIONS
Up 28% YOY

25.4%
ADJUSTED EBITDA MARGIN
Up versus 24.4% in 2016

382%
10-YEAR TSR

85
OF COUNTRIES SOLD INTO

5
OF BRANDS

12
OF LOCATIONS

1150
OF EMPLOYEES

172
OF DEGREED ENGINEERS

SHAREHOLDER LETTER

I am very proud of the results that our team delivered in 2017 in furtherance of our Vision 2025 strategic plan.

$343M

RECORD REVENUE

This represents a 74% increase over 2016 revenue.

I am very proud of the results that our team delivered in 2017 in furtherance of our Vision 2025 strategic plan. Your Company realized record revenue of $343 million. The Hydraulics segment grew organically by 22% to $231 million and the Electronics segment contributed $112 million, nearly all of which resulted from the December 2016 acquisition of Enovation Controls. On a pro forma comparative basis, the Electronics segment grew 33% organically in 2017. Consistent with our historical performance as well as our long-term goals, we maintained superior profitability in 2017, generating a 23% adjusted operating margin, leading to $1.60 adjusted earnings per share. This represents 72% EPS growth over 2016 results. And with solid cash generated from operations, we repaid $24 million of acquisition debt, closing the year at $116 million of debt outstanding.

These results were driven by the actions we've been taking to solidify our foundation and execute our Vision 2025, including the following:

INTEGRATION OF ENOVATION CONTROLS

During 2017 we integrated Enovation Controls, to become a vital contributor to Sun's results. This included the completion of a very complex carve-out from the Enovation Controls lines of business that we did not acquire. This complex carve-out involved the intricate dismantle and setup of inventories and production lines between San Antonio and Tulsa. This was completed while the Electronics segment realized 33% pro forma organic growth.

When we announced the acquisition, we indicated that, while we anticipate the Enovation Controls business will be successful on a standalone basis, we identified approximately $5 million of annualized EBITDA synergies to be ramped up and realized by 2020. We have many projects underway in support of the realization of those activities, which are driven by global cross-selling initiatives.

ADVANCING HYDRAULICS MARKET PENETRATION

To accelerate our global sales growth, we began adding experienced application specialists in the field over the past couple of years. In the Americas, these new resources work with our channel partners to provide solutions directly to OEMs.

In other parts of the world where our go-to-market strategy is primarily direct to OEMs, we are addressing geographic regions which historically were white spots for us and had little or no penetration. This is especially the case in southeast Asia, a rapidly growing region for us.

Adding more selling resources in the field is one of the early steps in our "In the region, for the region" initiative, placing us closer to our customers locally. These additional resources are also diversifying our revenue base by penetrating new end markets globally.

Another way we're adding value through the supply chain is by intensifying collaboration between our global suppliers and our global sales channel partners, including value-add distributors and integrators. Bridging this gap and providing such problem-solving in the field is just one example of how we differentiate Sun in the market place.

EVOLVING TO AN INTELLIGENT CONTROL SYSTEMS PROVIDER

While Sun has historically been known as a best-in-class component supplier, and will strive to continue to be, we are also expanding our know-how to develop more smart components and intelligent control systems. As consumers are becoming more technologically advanced, industry is demanding more electrification and digitization, and we are developing products and systems to satisfy this growing demand. During 2017, we launched the first products in our new line of competitively priced, high performance electro-hydraulics which were jointly developed by engineers from both our Hydraulics and Electronics teams.

EXPANDING CAPACITY TO SUPPORT GROWING ASIA-PACIFIC REGION

In 2017 we purchased the land and began construction of our new facility in South Korea. Once complete in 2018, this will house expanded manufacturing, engineering, sales and warehousing activities to support rapidly growing demand for our products and solutions in the Asia-Pacific region.

ACQUISITION OF FASTER GROUP EXPANDS HYDRAULICS MARKET COVERAGE

We accessed the equity capital markets at the end of January 2018 and successfully raised approximately $240 million to reduce our debt and fund our second quarter 2018 acquisition of Faster Group. Faster Group is a leading global manufacturer of quick-release hydraulic coupling solutions. Its primary markets include agriculture, construction equipment and general industrial applications. This aligns with our strategy to add approximately $350 million of acquired revenue between 2018 and 2025, to reach our Vision 2025 $1 billion revenue goal.

In closing, I wish to thank all of our stakeholders who contribute to our success, including our employees, customers, and suppliers around the globe, as well as our Board of Directors for their counsel. Finally, I wish to thank all of our shareholders for their confidence in the Sun organization as we continuously strive to reach our Vision 2025 goals.

With best regards,

WOLFGANG DANGEL
CEO and President

April 18, 2018

DRIVING TOWARD VISION 2025

Achieve global technology leadership in the industrial goods sector by 2025 with critical mass

↑ $1 Billion
IN SALES BY 2025
while maintaining superior profitability & financial strength

ACQUISITION OF FASTER GROUP

In the second quarter of 2018, SNHY acquired Faster Group, a leading global manufacturer of quick-release hydraulic couplings headquartered in Milan, Italy. Strategically for SNHY, this represents an extension of Sun's current hydraulics product offering and expands our global reach. Faster's primary end markets include agriculture, construction equipment and general industrial applications. Their strong engineering and manufacturing presence in Europe and access to trend-setting global OEMs will significantly expand both our Hydraulics and Electronics opportunities.

This acquisition fits very well with our Vision 2025. It advances our global technology leadership position in the industrial goods sector and maintains our superior profitability and financial strength. Faster recorded 2017 sales of €105 million (approximately $130 million) and an adjusted EBITDA margin of 27.5%. We anticipate higher SNHY earnings in 2018 as a result of this acquisition.

HYDRAULICS

Since its inception, Sun has occupied a leadership position in high-performance, high-reliability hydraulic components and systems for transmitting fluid power to control force, speed and motion. Sun's products are known globally for providing precise, safe and reliable operation of machinery and equipment in highly diversified markets.

We are currently targeting key market demands in hydraulics that are driving our product development in the near term, toward our Vision 2025 goals:

- Increased productivity and performance
- Improved safety and reliability
- Adoption of electro-hydraulic actuation and tuning
- Reduced noise and vibration
- Zero leaks
- More environmentally sensitive solutions

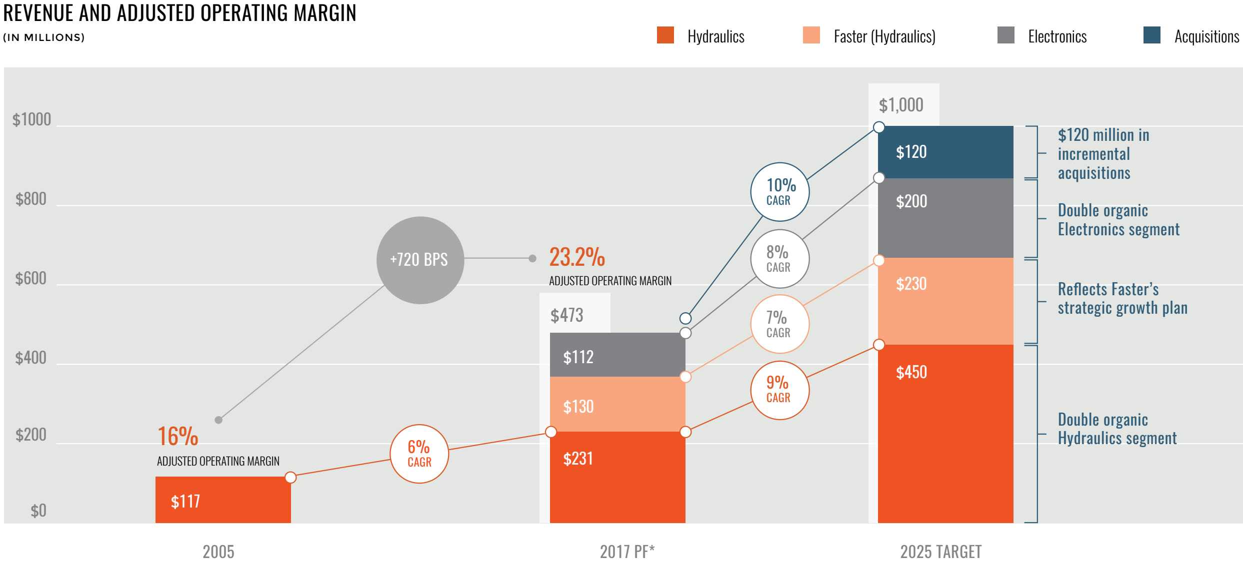
As we move forward into smarter components and more intelligent control systems, our teams are looking beyond cartridge valve design and at opportunities in systems and more highly integrated electro-hydraulic solutions. With new products released in 2017 that move Sun more solidly in that direction and with more joint development between our Hydraulics and Electronics teams, we expect to see rapid growth in these areas in all regions as more customers demand digital controls, smart hydraulics and greater integration with linked technologies.

In addition to investments to advance our current areas of Hydraulics expertise, we seek acquisitions to complement our current portfolio, including product adjacencies and geographic expansion.

VISION 2025: PATHWAY TO SUPERIOR GROWTH

REVENUE AND ADJUSTED OPERATING MARGIN

(IN MILLIONS)



$1B	/	>20%	/	>24%
REVENUE		ADJUSTED OPERATING MARGIN		EBITDA MARGIN

* 2017PF is pro forma to reflect the combination of 2017 actual SNHY and Faster results

ELECTRONICS

Long known as an industry leader for cutting-edge electronic control technology, Enovation Controls conquers complex system challenges for engines and equipment by rapidly leveraging our product platforms and expertise. Serving diverse markets through our Murphy, Zero Off and High Country Tek brands, we immerse ourselves in our customers' worlds to deliver remarkable, integrated solutions.

The Electronics segment is making key investments to drive toward its Vision 2025 goals:

- Intense focus to replicate success in the specialty vehicles markets for the off-highway OEM space
- Successful completion of complex acquisition transition goals ahead of schedule
- Multi-million dollar investment to expand manufacturing capabilities
- Revitalization of distribution network by leveraging Sun Hydraulics' best sales channel partners
- Ongoing investment in new innovative products, keeping pace with technological advances

2017 saw the first joint product launch between the Hydraulics and Electronics segments, which was very well received in the marketplace. As we continue to develop connected, intelligent controls, key to our growth strategy is leveraging the synergies between Electronics and Hydraulics to pursue common customers with a combined system solution.

This effort is keenly focused in targeted expansion markets (APAC and India) and will drive growth for Enovation Controls in segments where Sun Hydraulics enjoys high market share.

While we are focused on organic growth opportunities, we also seek acquisitions to complement our current portfolio, including broadening our electronic controls and instrumentation portfolio as well as expanding our geographic reach.

LINKED TECHNOLOGIES

On a mid-term and long-term basis, we anticipate seeking acquisition candidates that will link our two existing segments, Hydraulics and Electronics. This may include technologies such as electromechanical actuation, factory automation, software or Internet-of-Things.

IN THE REGION, FOR THE REGION

SNHY continues its global investment in human capital, facilities and equipment to expand our footprint - and our opportunities - in every market we serve.

With 12 global locations and approximately 200 sales channel partners around the world, we are well positioned to drive organic growth in all regions. And as we continue pursuing our Vision 2025, we are developing our resources to maximize regular customer interaction in the region, for the region, which we believe best positions us for growth in both Hydraulics and Electronics.

AMERICAS

Over the past couple of years, we began adding application specialists in the field to interact with OEMs and support sales channel partners. This initiative is quickly enhancing our market positioning, helping drive sales opportunities. Also, a collaborative targeted effort to optimize our distribution network has identified our best performing sales channel partners across Hydraulics and Electronics, positioning us to increase market share in both segments.

Additionally, we also consider consolidation of operations, where appropriate, to maximize our advanced capabilities. To that end, in 2017, High Country Tek's California operations were absorbed by Enovation Controls to leverage the strengths of both organizations and improve our competitive position.

EMEA

Sun continues to invest in local applications and sales expertise in the UK and Germany to drive sales in the EMEA region. With an eye on market share and new product opportunities, EMEA will continue to be a strong contributor to Sun's organic growth.

22%

OF CONSOLIDATED 2017 SALES

20%

OF CONSOLIDATED 2017 SALES

APAC

Expected gains in market share across all of the APAC region, and especially in China, will drive Sun's greatest organic growth regionally. Investments in new facilities in APAC, most notably a new factory currently under construction in Incheon, South Korea, and a new facility in Shanghai, China, will provide a better focused base of operations for Hydraulics and Electronics growth.

END MARKETS FOCUS

We continue to pursue vertical sales in markets that are not fully leveraged.

Diversified

BROAD END MARKET COVERAGE

ELECTRONICS MARKETS

We anticipate significant expansion in the growing electronics markets as we improve and expand our technology offerings with integrated solutions. Substantial investment in our manufacturing capabilities enables swift delivery of product on aggressive timelines to meet customer demand. Capitalizing on our success in the specialty vehicle markets and applying them to the growing off-highway OEM space is a targeted focus, while we continue to pursue vertical sales in markets that are not fully leveraged. Anticipated product launches in the near term will allow us to compete for increased share in existing markets, expanded share in targeted growth markets and increased content on the applications.

As equipment and engine OEMs fully transition to Tier 4 emissions regulations, we are ahead of the development curve to meet this need with emissions-compliant configurable solutions.

As part of our global strategy, our ready stable of mechanically compatible components enables us to retain those customers in developing regions as we transition them to fully electronic solutions. Our intense focus to deliver rugged and reliable, easy-to-use components also positions us well to capture the large, fast-growing construction machinery rental market.

We continue to build upon our existing platforms to meet new demands on a growing variety of applications. We incorporate technologies such as Wi-Fi, Bluetooth and even Infotainment options across many of our electronic control solutions, which customers demand for heightened safety, ergonomics, enhanced performance and usability. We believe we will meet Vision 2025 as the single-source supplier of industry-leading electronic control solutions for our lucrative growth markets with integrated, cutting-edge solutions.

ELECTRONICS MARKETS

- Recreational Marine & Power Sports Vehicles
- Construction & Material Handling
- Agriculture & Irrigation
- Industrial Machinery

HYDRAULICS MARKETS

- Agriculture
- Construction & Material Handling
- On-Highway & Commercial
- Industrial Machinery
- Marine & Offshore

HYDRAULICS MARKETS

The market for cartridge valve technology is estimated at over $2 billion, and Sun Hydraulics maintains a leadership position as a premium brand in that market. While widely known for superior load-holding technology – a critical component of many hydraulic systems – Sun Hydraulics offers a substantial range of high-quality hydro-mechanical valves used in almost every industrial and mobile market where fluid power is applied.

To realize Vision 2025, Sun has opened up more opportunities in the hydraulic markets with the release of the Sun FLeX™ Series electro-hydraulic valves in 2017. This product offering allows us to target growth in mobile construction, forestry, agriculture and utility markets where OEMs are moving quickly to connect their equipment to communications and control networks and paving the way for remote operation and maintenance; more efficient, greener technologies; and autonomous equipment and vehicles.

Furthermore, in stationary industrial markets, the drive for automation, predictive maintenance and integrated communications is, in turn, driving demand for smarter electro-hydraulic solutions like the FLeX Series.

With the release of the XMD electro-hydraulic driver in 2017 – the first joint product development between our Hydraulics and Electronics groups – Sun has moved decidedly toward more highly integrated hydraulics solutions, targeting medium-sized OEMs that increasingly require precision control using linked technologies. And it is this kind of effort that brings Sun's Hydraulics and Electronics businesses together to create smart system optimization solutions for industrial and mobile markets.

FINANCIAL HIGHLIGHTS

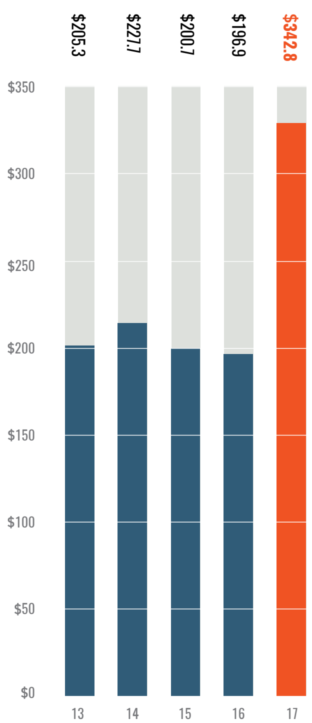
With solid cash generated from operations, we repaid $24 million of acquisition debt, closing the year at $116 million of debt outstanding.

72% EPS Growth

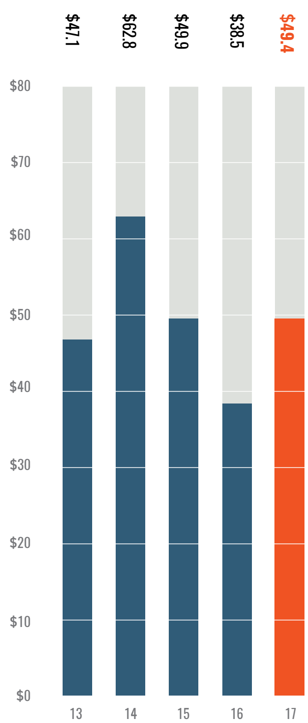
OVER 2016

2017 Adjusted EPS of $1.60 increased $0.67 over 2016

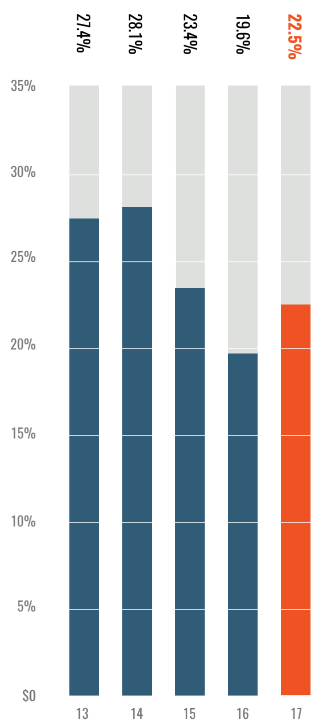
NET SALES
(IN MILLIONS)



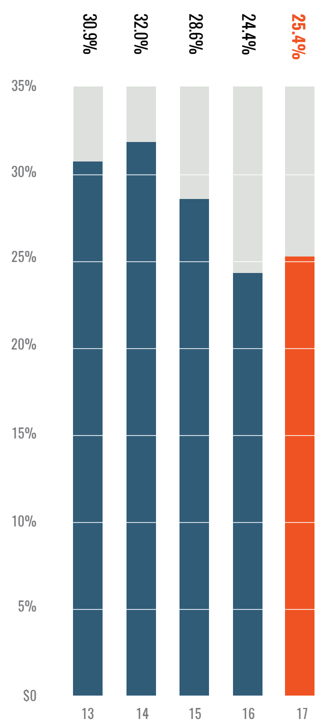
CASH FROM OPERATIONS
(IN MILLIONS)



ADJUSTED OPERATING MARGIN
(AS A PERCENT)



ADJUSTED EBITDA MARGIN
(AS A PERCENT)



IN THOUSANDS EXCEPT PER SHARE DATA REPORTING YEAR	2017	2016	2015	2014	2013

Statement of Operations

Net sales	$342,839	$196,934	$200,727	$227,673	$205,267
Gross profit	136,525	71,349	77,093	93,892	82,961
Operating income	61,491	34,459	46,891	64,071	56,171
Adjusted operating income	77,076	38,562	46,891	64,071	56,171
Net income	31,558	23,304	33,138	43,775	37,984
Adjusted net income	43,168	25,018	33,138	43,775	37,984
Basic and diluted net income per common share	$1.17	$0.87	$1.24	$1.65	$1.45
Diluted adjusted net income per common share	$1.60	$0.93	$1.24	$1.65	$1.45
Dividends per common share	$0.38	$0.40	$0.45	$1.45	$0.45

Other Financial Data

Depreciation and amortization	$19,190	$11,318	$9,557	$8,718	$7,227
Capital expenditures	22,205	6,187	6,106	10,667	17,935

Balance Sheet Data

Cash and cash equivalents	$63,882	$74,221	$81,931	$56,843	$54,912
Working capital	100,913	110,192	145,336	119,815	115,038
Total assets	459,766	444,777	241,540	222,764	213,478
Total debt	116,000	140,000	-	-	-
Shareholders' equity	272,673	236,397	222,187	198,259	191,428

% of Sales

Gross margin	39.8%	36.2%	38.4%	41.2%	40.4%
Adjusted operating margin	22.5%	19.6%	23.4%	28.1%	27.4%
Adjusted net income margin	12.6%	12.7%	16.5%	19.2%	18.5%

CORPORATE INFORMATION

DIRECTORS

Marc Bertoneche, PhD
Emeritus Professor,
Business Administration
University of Bordeaux

Douglas M. Britt
President
Flex Ltd

Allen J. Carlson
President, CEO retired
Sun Hydraulics Corporation

Wolfgang H. Dangel
President, CEO
Sun Hydraulics Corporation

David W. Grzelak
Chairman, CEO retired
Komatsu America Corporation

Christine L. Koski
President, CEO
nMetric, LLC

Philippe Lemaitre
Chairman of the Board
Sun Hydraulics Corporation
Chairman, President, CEO retired
Woodhead Industries, Inc.

Alexander Schuetz
CEO
Knauf Engineering GmbH

CORPORATE OFFICERS

Wolfgang H. Dangel
President, CEO

Tricia L. Fulton
Chief Financial Officer

Gary A. Gotting
Global Lead, CVT Product Development and Marketing

Kennon H. Guglielmo
Global Co-Lead, Electronic Controls

Jinger J. McPeak
Global Co-Lead, Electronic Controls

Craig Roser
Global Lead, CVT Sales and Business Development

Gregory C. Yadley Esq.
Corporate Secretary

CORPORATE HEADQUARTERS

Sun Hydraulics Corporation
1500 West University Parkway
Sarasota, FL 34243
941.362.1200
www.sunhydraulics.com

COMMON STOCK INFORMATION

NASDAQ Global Select Market Symbol: SNHY

Registered shareholders of record at March 23, 2018: 1,200

Beneficial owners of record at March 23, 2018: 12,000

Closing stock price at March 23, 2018: $53.61

ANNUAL MEETING

Thursday, May 31, 2018
9:00 AM CDT
River Spirit Casino Resort
8330 Riverside Pkwy
Tulsa, OK 74137

LEGAL COUNSEL

Shumaker, Loop & Kendrick, LLP
Tampa, Florida

INDEPENDENT AUDITORS

Grant Thornton, LLP
Tampa, Florida

TRANSFER AGENT

Computershare
Canton, Massachusetts

INVESTOR RELATIONS

KEI Advisors LLC
Karen L Howard
716.843.3942
khoward@keiadvisors.com

A copy of the Company's Form 10-K, filed with the Securities and Exchange Commission, will be furnished free of charge on written request to:

KEI Advisors LLC
7606 Transit Road, Suite 300
Buffalo, NY 14221

FORWARD-LOOKING STATEMENT

This annual report contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934.

Forward-looking statements involve risks and uncertainties, and actual results may differ materially from those expressed or implied by such statements. They include statements regarding the intent, belief or current expectations, estimates, vision or projections of Sun Hydraulics Corporation (“Sun” or the “Company”), its directors or its officers about the Company and the industry in which it operates, and assumptions made by management, and include among other items, (i) the Company’s strategies regarding growth, including its intention to develop new products and make acquisitions; (ii) the Company’s financing plans; (iii) trends affecting the Company’s financial condition or results of operations; (iv) the Company’s ability to continue to control costs and to meet its liquidity and other financing needs; (v) the declaration and payment of dividends; and (vi) the Company’s ability to respond to changes in customer demand domestically and internationally, including as a result of standardization. Although the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that the anticipated results will occur. Important factors that could cause the actual results to differ materially from those in the forward-looking statements include, among other items, (i) the economic cyclicality of the capital goods industry in general and the hydraulic valve and manifold industry in particular, which directly affect customer orders, lead times and sales volume; (ii) fluctuations in global business conditions, including the impact of economic recessions in the U.S. and other parts of the world, (iii) conditions in the capital markets, including the interest rate environment and the availability of capital; (iv) changes in the competitive marketplace that could affect the Company’s revenue and/or costs, such as increased competition, lack of qualified engineering, marketing, management or other personnel, and increased labor and raw materials costs; (v) risks related to the integration of the businesses of the Company and Enovation Controls; (vi) changes in technology or customer requirements, such as standardization of the cavity into which screw-in cartridge valves must fit, which could render the Company’s products or technologies noncompetitive or obsolete; (vii) new product introductions, product sales mix and the geographic mix of sales nationally and internationally; and (viii) changes relating to the Company’s international sales, including changes in regulatory requirements or tariffs, compliance with anti-corruption laws and trade laws, including export and import compliance, trade or currency restrictions, fluctuations in exchange rates, and tax and collection issues. Further information relating to factors that could cause actual results to differ from those anticipated is included but not limited to information under the headings Item 1. “Business,” Item 1A. “Risk Factors,” and Item 7. “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” in the Company’s Form 10-K for the year ended December 31, 2017. The Company disclaims any intention or obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

This annual report will discuss some non-GAAP financial measures, which the Company believes are useful in evaluating its performance. You should not consider the inclusion of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. The Company has provided reconciliations of comparable GAAP to non-GAAP measures in tables found in its news releases and other public information.

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