NEWAYS ELECTRONICS INTERNATIONAL N.V.

HALF YEAR REPORT 2017

Course of events in the first half year

Highlights

- Net turnover rises to € 213.6 million, up 7.9% year-on-year, largely on the back of strong contributions from Semiconductor, Automotive and Defence.
- Order intake increased by 12.1% year-on-year, primarily driven by new contracts at Semiconductor and Automotive. Order book stood at € 218.0 million at end-June 2017, up from € 184.4 million at end-June 2016.
- Gross margin at € 84.8 million, an increase of 9.3% compared with the first half of 2016, on the back of higher sales and the realisation of purchasing benefits.
- Faster than anticipated growth in activity levels and late deliveries due to scarcity in the components market resulted in inefficiency in the production process and the greater use of temporary staff. In addition, Neways made extra investments in the organisation to facilitate the realisation of larger and more complex development projects, which had a dampening effect on the operating result.
- Net income came in 11.4% higher at € 4.9 million, due to a one-off tax gain of € 0.4 million and lower interest expenses.

Operational developments

Huub van der Vrande, CEO: “The increase in orders and turnover in the first half of the year shows that we are growing strongly and that OEMs clearly recognise the added value of our proposition as a fully-fledged development and lifecycle partner. Both new and existing clients increasingly approach and engage Neways in the early stages in the development of electronic components and systems. This was a particularly busy first half for our developers and engineers.

In addition to strong growth in the number of orders, the average volume of orders also increased. This increased the range of demands and requirements from our clients and the complexity of the orders.
A number of projects required additional efforts due to the rapid upscaling in terms of both the size and complexity of development projects. We see clear potential to improve the execution of projects in term of both effectiveness and efficiency. However, we are not satisfied with the development of the result in the past six-month period.

In the context of our ‘Up to the next level’ programme, we are structuring our organisation and the deployment of resources to make these more robust, which will improve the efficiency of our logistics and production processes. This will take time, however, especially as it requires greater awareness on the part of our people and the realisation of a new way of working.”

Financial data

Net turnover showed fully organic growth of 7.9% and came in at € 213.6 million in the first half of 2017, largely due to a strong contribution from Semiconductor, as well as the Automotive and Defence sectors. The order intake increased by 12.1% or € 28.4 million in the first half of the year, which resulted in an increase in the order book of 18.2% to € 218.0 million, from € 184.4 million at end-June 2016. The book-to-bill ratio was 1.1, largely driven by new orders from the Semiconductor and Automotive sectors.

The gross margin was up 9.3% on the back of higher sales and the realisation of purchasing benefits. Relative to net turnover, the gross margin was also higher at 39.7% in the first half of 2017, compared with 39.2% in the first half of 2016 (H2 2016: 39.0%).

Operating expenses were up 10%, largely due to an increase in the use of temporary staff, as a result of higher activity levels and the resulting need to safeguard the quality and delivery reliability levels. The increase in both size and complexity of projects also required additional investments in the organisation.

Financial expenses declined by 22.2%, largely due to improved terms. Neways repaid a total of € 4.3 million in loans with a higher interest rate in the past 12 months to 30 June 2017. Net income was 11.4% higher at € 4.9 million, due to a one-off tax gain of € 0.4 million.

Solvency stood at 42.1% at the end of the first half of 2017, an improvement on the 41.7% reported for the end of H1 2016. Solvency stood at 44.6% at year-end 2016.

Risk factors and uncertainties with potential effect in the second half year 2017

The Neways reporting system and the key risks identified are explained in the risk and risk management section of the 2016 annual report, on pages 56-60. The risks described also apply to the second half of 2017.

Outlook

Neways will continue the roll-out of its group-wide improvement programme “Up to the next level” in the second half of 2017 and as part of this programme will prioritise improvements in operational efficiency. Thanks to these efforts and the strong increase in the order book, Neways expects to record higher net turnover and normalised operating result for the full-year 2017 compared to the full-year 2016.

Directors’ statement regarding financial reporting

The Board of Directors of Neways Electronics International N.V. confirms that, to the best of its knowledge:

The 2017 half year financial statements give a true and fair view of the assets, liabilities and financial position as at 30 June 2017 and of the results for the first half year 2017 of Neways Electronics International N.V. and the Group companies included in the consolidation.

The 2017 half year report of the Board of Directors gives a true and fair view of the position as at 30 June 2017, the developments during the first half year of Neways Electronics International N.V. and its Group companies included in the consolidation and the half year report describes the material risk facing the company.

Son (the Netherlands), 29 August 2017

Huub van der Vrande – CEO
Paul de Koning – CFO
Adrie van Bragt – COO

Consolidated Statement of Realised and Unrealised Results

Amounts x € 1,000	**First half year 2017**	**First half year 2016**
Turnover sale of goods	213,571	197,943
Change in work in progress and finished products	1,967	-666
Costs of materials	-130,739	-119,646
Personnel costs	-60,042	-53,973
Depreciation and amortisation	-4,429	-3,877
Other operating expenses	-13,672	-13,093
Operating result	**6,656**	**6,688**
Financing costs	-720	-866
Result before taxes	**5,936**	**5,822**
Taxes (5)	-1,044	-1,404
Net result	**4,892**	**4,418**
Unrealised results		
To reclassify in the profit and loss account in following periods:		
Exchange rate differences foreign subsidiaries	-134	-99
Unrealised results after taxes	**-134**	**-99**
Total realised and unrealised results after taxes	**4,758**	**4,319**
Result per share (in €)		
- Net result	0.43	0.39
- Diluted net result	0.41	0.38

HALF YEAR RESULTS 2017

Consolidated Balance Sheet

Amounts x € 1,000	30/06/2017	31/12/2016
Assets		
Fixed assets		
Tangible fixed assets	33,575	34,249
Intangible fixed assets (6)	12,532	13,472
Financial fixed assets	4,373	4,303
	50,480	**52,024**
Current assets		
Inventories	97,312	86,280
Trade and other receivables	52,705	48,470
Corporate income tax	71	147
Cash and cash equivalents	1,076	1,167
	151,164	**136,064**
Total assets	**201,644**	**188,088**
Equity and liabilities		
Issued and paid-up capital	5,740	5,730
Share premium reserve	40,161	39,989
Retained earnings	33,314	32,324
Translation reserve	762	896
Equity attributable to holders of ordinary shares	**79,977**	**78,939**
Long-term liabilities		
Interest bearing loans (8)	5,048	5,342
Provisions	709	578
Pension and jubilee provision	5,173	5,322
Deferred tax liabilities	706	755
	11,636	**11,997**
Short-term liabilities		
Bank overdrafts (8)	35,343	19,890
Interest bearing loans (8)	3,247	5,949
Trade and other payables	63,532	63,264
Taxes and social security premiums	6,930	7,100
Corporate income tax (5)	382	325
Provisions	597	624
	110,031	**97,152**
Total equity and liabilities	**201,644**	**188,088**

HALF YEAR RESULTS 2017

Consolidated Cash Flow Statement

Amounts x € 1,000	First half year 2017	First half year 2016
Operating activities		
Results before taxes	5,936	5,822
Adjustments for:		
Depreciation of tangible fixed assets	3,332	3,418
Amortisation of intangible fixed assets	1,097	459
Costs granted staff options	37	23
Finance costs	720	866
Change in provisions and pension liabilities	-45	-714
Changes in working capital *)	-15,169	-9,884
	-4,092	**-10**
Other changes:		
Interest paid	-620	-749
Corporate income tax paid	-1,090	-598
Cash flow from operating activities	**-5,802**	**-1,357**
Investment activities		
Investments in intangible fixed assets	-157	-580
Investments in tangible fixed assets	-2,658	-1,611
Cash flow from investing activities	**-2,815**	**-2,191**
Financing activities		
Repayments of interest bearing loans	-3,004	-4,600
More (less) use of bank overdrafts	15,453	9,599
Dividends paid to shareholders	-3,902	-1,254
Revenues from exercise of options	134	21
Cash flow from financing activities	**8,681**	**3,766**
Change in cash and cash equivalents	**64**	**218**
Net exchange rate differences foreign currencies	-155	-434
Cash and cash equivalents as per 1 January	1,167	1,552
Cash and cash equivalents as per 30 June	**1,076**	**1,336**
***) Changes in working capital**		
Inventories	-11,032	-4,235
Trade and other receivables	-4,235	-9,232
Trade and other payables	268	617
Taxes and social securities premiums	-170	2,966
	-15,169	**-9,884**

HALF YEAR RESULTS 2017

Consolidated Statement of Changes in Group Equity

Amounts x € 1,000	Issued and paid capital	Share premium reserve	Retained earings	Exchange rate differences reserve	Total Equity
Balance as per 1 January 2016	**5,701**	**39,693**	**24,243**	**917**	**70,554**
Result for the period			4,418		4,418
Unrealised results				-99	-99
Total realised and unrealised results	0	0	4,418	-99	4,319
Exercise share options (7)	2	19			21
Issuance share options		23			23
Dividends (7)			-1,254		-1,254
Total transactions with owners of the Company	2	42	-1,254	0	-1,210
Balance as per 30 June 2016	**5,703**	**39,735**	**27,407**	**818**	**73,663**
Balance as per 1 January 2017	**5,730**	**39,989**	**32,324**	**896**	**78,939**
Result for the period			4,892		4,892
Unrealised results				-134	-134
Total realised and unrealised results	0	0	4,892	-134	4,758
Exercise share options (7)	10	136			146
Issuance share options		36			36
Dividends (7)			-3,902		-3,902
Total transactions with owners of the Company	10	172	-3,902	0	-3,720
Balance as per 30 June 2017	**5,740**	**40,161**	**33,314**	**762**	**79,977**

Notes to the consolidated first half year results 2017

1. Group-related information

Neways Electronics International N.V. is a company founded and with its head offices in the Netherlands and the shares in said company are traded publicly (ticker: NEWAY). Its registered office is in Eindhoven, and its effective place of establishment is in Son. Neways Electronics International N.V. and its subsidiaries together form the Group. The Group is an international one-stop provider of advanced and integrated electronic components, combinations of same and systems for the industrial electronics sector.

2. Statement of compliance

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in accordance with IAS 34, 'Interim Financial Reporting'. The consolidated interim financial statements should be read in conjunction with the Group financial statements for the full year 2016. The accounting standards used for valuation and the determination of results are the same as those used for the 2016 financial statements.

The Supervisory Board approved the interim financial statements as at 30 June 2017 on 25 August 2017. The contents of this interim report have not been audited.

3. New standards and interpretations not yet implemented

In the first half of 2017, Neways assessed the new standards and interpretations IFRS 9, IFRS 15 and IFRS 16, which are not yet applicable. Neways has not applied these new or amended standards in drawing up the interim results before they become applicable.

IFRS 9, '*Financial instruments*', includes revised standards with respect to the classification and valuation of financial instruments, including a new model for expected credit losses and new general requirements for hedge accounting. IFRS 9 applies to financial years starting on or after 1 January 2018. Neways does not make use of hedge accounting, which means this revision will not have any impact on the company's financial statements. With regard to the other revised standards, Neways does not expect the application of IFRS 9 to have any material impact on its financial statements.

IFRS 15 provides an extensive framework to determine if, to what extent and when revenues should be recognised. The standard replaces the existing provisions for the recognition of revenue, including IAS 18 *Revenues*, IAS 11 *Projects in progress for third parties* and IFRIC 13 *Customer loyalty programmes*. IFRS 15 comes into effect for financial years starting on or after 1 January 2018. Neways is currently conducting an initial assessment of the potential impact of the application of IFRS 15 on its financial statements and cannot yet estimate the significance of the potential impact.

IFRS 16 replaces the existing standards relating to leasing, including IAS 17 *Lease agreements* and abolishes the distinction between operational and financial leases. Under the new standard virtually all lease contracts must be included in the balance sheet. Exceptions to this are short-term lease contracts and lease contracts related to assets with little value. The changes apply to financial years starting on or after 1 January 2019. Neways has started an initial assessment of the potential impact on its annual financial statements. At the moment, the most significant impact will be that Neways will include new assets and liabilities related to the operational lease for its business premises and cars currently in use. In addition to this, the nature of the liabilities recognised will change. Instead of expenses from operational leases being recognised on the basis of the straight-line method, IFRS 16 requires recognition of depreciation costs charged for the right of use on the underlying assets and interest charges on the lease obligations. Neways has not yet decided whether it will make use of the available exemptions.

4. Business segments

The Group's long-term strategy is focused on strengthening its position as a one-stop provider of customer- specific industrial and professional electronic components, combinations of components and systems for the Electronic Manufacturing Services (EMS) market. The intensive collaboration and clear communication between the various Neways operating companies enables the Group to provide customers in this market with the optimum level of service, with the added benefit that contacts with customers run via a single contact point.

Neways' Western European operating companies play a vital role in the execution of the corporate strategy as a one-stop service provider. Both in terms of customer contact and geographically, these companies operate in close proximity to their customers. The operating companies in Eastern Europe and Asia focus primarily on the production of larger, less complex, stable series with the aim of realising cost savings for customers. The majority of the production contracts come from their sister companies in Western Europe.

The continuous improvement of internal cooperation at every level of the organisation is essential to serve customers as one homogeneous, integrated group of companies, with shared quality control policies, a recognisable business culture and a unified presentation of the Group's vision.

Decision-making at Group management level is based on the management's own assessments and direct communications with all the parties involved. Financial management is based on consolidated information. This means that Neways does not recognise segmentation as meant under IFRS 8.

5. Taxes

The tax burden for the first half of 2017 amounts to 17.6% (first half year of 2016: 24.1%) and consists for the most part of corporate income tax due on the fiscal profit realised in the Netherlands, at the current tax rate of 25%. The tax burden over the in Germany realised profit over the first half year of 2017 is fully compensated by the valuation of a tax asset over the loss compensation at the German subsidiaries.

6. Goodwill impairment test

Neways conducts impairment tests on its goodwill annually (as per 31 December), or more frequently if any events or changes in circumstances indicate that the carrying value may have suffered impairment. The recoverable value of goodwill is determined on the basis of the enterprise value. The assumptions made in the calculation of the value of the future cash flows of any cash flow generating unit are outlined in the 2016 financial statements.

When assessing impairment indicators, the Group takes into account such factors as the ratio of its stock market capitalisation to its carrying value. As per 30 June 2017, the Group's stock market capitalisation was higher than the carrying value of its shareholders equity.

7. Equity

7.1 Issuance of ordinary shares

In the scope of the applicable share option scheme for Management Board members and a selected group of other officers 20,000 ordinary shares were issued following the exercise of share options (2016: 5,000). The options were exercised at an average price of € 6.68 per share (2016: € 4.09 per share).

7.2 Dividend paid

Amounts x € 1,000	30 June 2017	30 June 2016
Determined and paid out in the first half		
Dividend on ordinary shares:		
Final dividend 2016: € 0.34 (2015: € 0.11)	3,902	1,254

8. Financial liabilities

The fair value of all the Group's financial instruments approximates their carrying value.

9. Share-based payment agreements

Following approval by the General Meeting of Shareholders held on 18 April 2017, the Group introduced a 'performance share plan' based on which a selected group of key personnel was provided with a conditional attribution of performance shares in the company. When the desired performance level is reached 37,241 shares will be attributed.

10. Transactions with related parties

The table below shows the total amount in transactions with related parties for the first half of 2017 and 2016:

Amounts x € 1,000		Sales to	Purchases/services from	Due from	Due to
Entity with significant influence on the Group:					
VDL Groep	2017	7,803	1,713	4,142	678
	2016	6,421	1,120	2,583	761
Key Group personnel:					
	2017		160		
	2016		159		

Outstanding balances are not covered by collateral securities, are non-interest bearing and are settled in cash.