ANNUAL REPORT 2019

NEWAYS®

CONNECTING PEOPLE
AND TECHNOLOGY

Fifty years of Neways

1969
Gerard Meulensteen
founds Elektrotechnisch Projektenbureau Meulensteen in Eindhoven

First order: Philips

1970
First acquisition
Philips Nederland's project department

1971
Company renamed to Meulensteen Elektronika

1975
Meulensteen starts to make printed circuit boards (PCB International)

1980
Company renamed Neways
Unique industrial operations, with the future in mind

1985
Major fire at Neways
fast reconstruction: Frits Philips opens the renovated building

1986
Neways' first stock exchange listing
issue price: 20 guilders (EUR 9); branch in Belgium opens

1987-1995
Various acquisitions
including Philips Prozess- und Maschinen Automations in Kassel (Germany) and Ramaer in southern Dutch town of Helmond (PCBs)

1994
Party!
Neways celebrates its twenty-fifth anniversary

1997
Relocation
To new company building at Science Park Eindhoven in Son

1998
Neways makes acquisitions
Including Hymec (electronics for the space travel, telecoms and medical sectors)

2001
Neways forced to reorganise Dutch operations

Branch in China opens
Neways Wuxi Electronics

Meulensteen acquires struggling Ramaer from Neways and continues the operations

2004-2005
Various acquisitions by Neways
including Q-Nova in Slovakia

2007
Neways acquires Thyssen Krupp's electronics operations

2009
Crisis
Neways hit by the financial crisis

2011
Neways one of top 5
fastest-growing companies in south-eastern Brabant

2014
Biggest acquisition in Neways' history
BuS Groep (900 employees), which makes Neways a top player on the European EMS market

2015
Launch of One Neways
Fourteen companies in five countries shift towards one unified corporate culture

2018
Record revenue
Neways posts record revenue (EUR 506.8 million) and record profit (EUR 14.4 million), and has over 3,000 employees

Launch of United States operations: Neways Electronics US

2019
Neways celebrates its fiftieth anniversary

The original financial statements were drafted in Dutch. This document is an English translation of the original. In case of any discrepancies between the English and the Dutch text, the latter will prevail.

Eric Stodel
CEO from 1 January 2020

I joined the Board of Directors of Neways Electronics International NV as CEO on 1 January 2020. During the past fifty years, Neways has grown into a significant player in the Electronic Manufacturing Services (EMS) sector with a strong international customer base and a nicely balanced spread across relevant growth sectors such as the automotive industry (specifically e-mobility), the medical industry, the industrial market and the semiconductor industry.

Neways has created a strong, internationally-oriented competitive position and has operations at fourteen sites in Western Europe (The Netherlands and Germany), Eastern Europe (Czech Republic and Slovakia), Asia (China) and the United States.

During my first two months at Neways, I spoke to many business partners and visited several of our operating companies. I have been immensely inspired by the positive spirit, in-depth technical knowledge and expertise, and enormous capacity for innovation within Neways. So I look forward to making maximum use of my extensive OEM and EMS management experience and expertise to not only set out a course for our global business together with my colleagues, but also to get the most out of the expertise and talent within the Group.

Although Neways achieved healthy turnover growth in 2019, strong fluctuations in demand were also apparent. This combination of factors places high demands on our internal organisation and operating processes. In spite of all the company's efforts, Neways was unable to convert this healthy growth in turnover into a healthy growth in profit in 2019. We must improve this aspect in the coming years to safeguard our ability to carry on investing in our business activities and resources.

Value chain collaboration

Developments in technology, such as artificial intelligence, self-driving cars, robotics and the Internet of Things are progressing at lightning speed. These are all technologies that require more electronic connections and complex integrated solutions.

As a result, large OEMs and suppliers – our customers – are increasingly receptive to setting up strategic partnerships in order to keep pace with these developments. We are skilled at timely identifying interesting niches and intelligently seizing the opportunities they present. Our customers are constantly looking for efficiency benefits to make their operations more effective and competitive. The demand for customised solutions and flexibility is increasing and effective collaboration within the value chain is also becoming ever more important as a result. These are solutions and partnerships that Neways can offer.

Neways Inside

I feel that Neways should profile itself more by emerging from the shadow cast by our customers. Neways is a proud company and justifiably so, but at the same time we are also overly modest about the extremely high-quality and reliable solutions that we develop and produce for our customers. After suitable consultation, we will more proactively and proudly communicate with the market about OEM products that all use Neways Inside.

For example, we make extremely complex electronics and cabinets for EUV chip machines and electron microscopes, monitor the safety of millions of train passengers and our sensors make millions of cars safer. In addition, our components are present in a wide range of aviation and defence systems and in navigation satellites, and we make components for CERN's particle accelerators in Switzerland. Furthermore, millions of motorists use our components every time they pay for fuel using a payment terminal or recharge their vehicle at an electric charging station. Every year, tens of thousands of people are medically examined and operated on thanks to the availability of MRI scanners and surgical robots that are full of Neways electronics.

Product life cycle partner and system innovator

We will mobilise our powers of innovation even more effectively to make Neways the preferred system innovator *and product life cycle partner* for our international customers, from the initial idea and development stage to production, repair and services. We will focus more acutely on positioning technological solutions that

have higher added value for our customers. By moving further up the value chain for customers, in addition to supplying PCBAs, wiring and microelectronics solutions, we will be able to focus more on advanced electronic assemblies and fully integrated box-build and other systems. As we now employ more than 250 highly trained engineers at strategic locations close to the universities of Eindhoven, Delft, Twente and Erfurt, we are also capable of offering more and more services to our customers. Further development and deepening of our sector and account plans, technology roadmaps and 'centres of expertise' are essential requirements for this. Our attention will also be firmly focused on further expansion of our EMS competencies, particularly in Eastern Europe, Asia and the United States.

One Neways

The strong fluctuations in demand put pressure on the design of our business processes. In order to anticipate effectively in this area, we will continue to focus on making the internal procedures for outsourcing production orders more efficient and on improving and standardising our order intake process. Achieving this will require ongoing attention to ensure optimum allocation of continuously changing demand, spread over the available engineering and production capacity in our operating companies, further standardisation of our business processes, procedures and systems and harmonisation of our corporate culture with an unambiguous presentation to our customers *(One Neways)*.

By intensifying the level of contact with our customers, we will be able to form a clearer picture of their needs and more accurately understand exactly where their challenges lie. As we do so, we will look more critically at our risk appetite and the agreements we make with both customers and suppliers in the value chain. This calls for continuous strengthening of management expertise in the operating companies and further development of our employees' extensive talents. These improvements will make our operational and financial performance more robust and permanently raise them to a higher level. All these initiatives are a reflection of three key strategic principles within Neways: *Customer Intimacy, Technology Leadership* and *Operational Excellence*.

Outlook

The priority for 2020 is to increase our productivity and flexibility. Neways has grown successfully through customer focus, by constantly reinventing itself and by discovering and adopting New Ways. The challenge in future years will be to strike an optimum balance between further professionalisation of the global organisation and increasing profitability on the one hand, and retaining our effective entrepreneurial corporate culture on the other hand.

At the start of 2020, our order book is well-filled and shows a balanced spread across the market segments that are important to Neways, as mentioned above. This spread gives us better resilience against possible fluctuations in economic growth. In 2020, Neways will focus less on growth and more acutely on profitability.

I would like to thank Huub van der Vrande, Neways' CEO for the last sixteen years, for his outstanding contribution to Neways' growth and success during his nineteen-year career with the company. The same applies to all my other colleagues at Neways, both the many whom I have already met personally and those I will undoubtedly meet in the future, who once again worked with great commitment and dedication on behalf of Neways, our customers and all our other business partners during the past year. I eagerly look forward to working together with you in the future and jointly making Neways an even more successful company!

ABOUT NEWAYS

Company profile

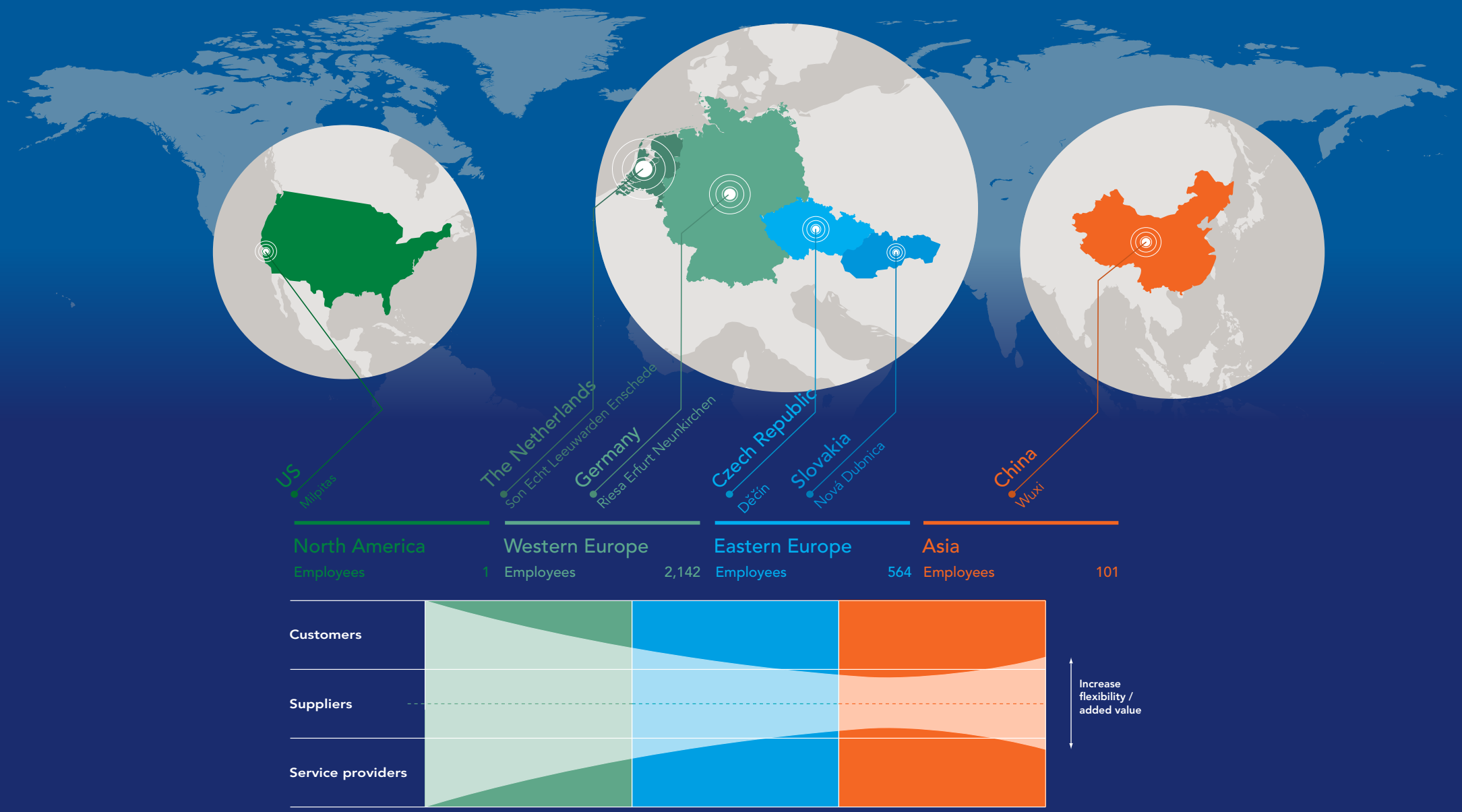
Neways is one of the top ten companies in the European market for Electronic Manufacturing Services (EMS). The company operates as a development and production partner for Original Equipment Manufacturers (OEMs) and their First-tier suppliers. We focus primarily on high tech sectors, i.e. semiconductor, automotive, industrial and medical. Our workforce of around 3,000 employees operates from fourteen subsidiaries spread across Western Europe, Eastern Europe, Asia and the United States.

Neways' head office is located in Brainport Eindhoven, a leading technology cluster concentrated in Eindhoven and the surrounding area. Leading global manufacturing companies such as ASML, NXP and Philips are also located here. Local government authorities and technical education institutions work together closely to maintain and strengthen the region's international competitiveness in high tech and innovation.

Our mission

Neways aims to be *the* preferred development and production partner for its customers and contribute to optimising the total cost of ownership of an end product by supplying tailor-made solutions for the entire life cycle of electronic components, applications and box-build control systems.

International presence and business model



Business model

Our area of operation covers the entire life cycle of professional and advanced electronics in the business-to-business segment. We use our technological expertise and flexibility to help customers innovate and produce more intelligently and more efficiently.
As a partner, we are involved at an early stage in the development of a product, carry out prototyping and testing prior to batch production, and we also organise maintenance, upgrades and further development.

Our operating companies are located at strategically chosen locations, close to our customers. This puts us in an ideal position to facilitates close collaboration.
Intensive coordination between our operating companies not only allows us to serve large manufacturing companies more effectively, it also allows us to achieve economies of scale, synergy advantages and efficiency benefits.

WESTERN EUROPE

In Western Europe, our nine operating companies implement Neways' strategy of operating as a one-stop provider, and the group's most knowledge-intensive activities are concentrated here. We combine technological expertise with high-quality batch production of complex electronic components and ready-made systems. Neways has strong market positions in the main industrial and technological regions of the Netherlands and in Germany, which is by far the largest market for EMS in Europe.

EASTERN EUROPE

In Eastern Europe, three operating companies produce electronic components and systems in large batches. In cases where this benefits the *total cost of ownership* for our customers, mature products further along in their life cycle are produced in facilities where Neways has successfully created a low cost base and set up an optimal production process. Neways has invested significantly in modernising and expanding the capacity of its production facilities in the Czech Republic and Slovakia in recent years. As a result, Neways has been able to meet the stipulated quality requirements, created a strong basis for future growth in its activities and strengthened its market position in Eastern Europe.

ASIA

Neways' operating company in Asia specialises in PCB assembly and building devices and systems. The subsidiary in China mainly works on behalf of our European customers and operating companies in the Netherlands and Germany, but also increasingly offers operational support to OEMs and their First-tier suppliers that have subsidiaries in China.

Components and systems are produced cost-effectively in China.
Our production facility is state-of-the-art and uses the most Surface-Mounted Devices (SMD), production lines and test equipment available.

The Chinese operating company is both a cost-efficient production facility and a good basis for future expansion. Neways is already developing activities in Asia on a modest but growing scale, partly with a view to providing local-for-local services. The Chinese operating company plays a key role in expanding component procurement for the entire Group as it allows us to source in the local Chinese market.

UNITED STATES

In the United States, Neways has a single operating company in Silicon Valley (California). The activities there started in 2018 and still focus on supporting existing customers, particularly in the medical and semiconductor sectors. The focus is on engineering activities that add a high degree of value. Our ambition is to expand our presence and customer base in the United States.

Activities

	PCB/product assembly	Engineering/ prototyping	System construction	Cable production/ assembly	Microelectronics development/production	Development
Neways Advanced Applications Son	●	●	●			
Neways Cable & Wire Solutions Echt		●		●		
Neways Industrial Systems Son	●	●	●			
Neways Leeuwarden Leeuwarden	●	●				
Neways Micro Electronics Echt		●			●	
Neways Technologies Son - Erfurt - Enschede - Echt						●
Neways Neunkirchen Neunkirchen	●	●				
Neways Electronics Riesa	●	●	●			
Neways Slovakia Nová Dubnica	●		●	●		
Neways Electronics Děčín	●					
Neways Wuxi Wuxi	●					
Neways Electronics US, INC. Milpitas		●				

Multinational with a family feel

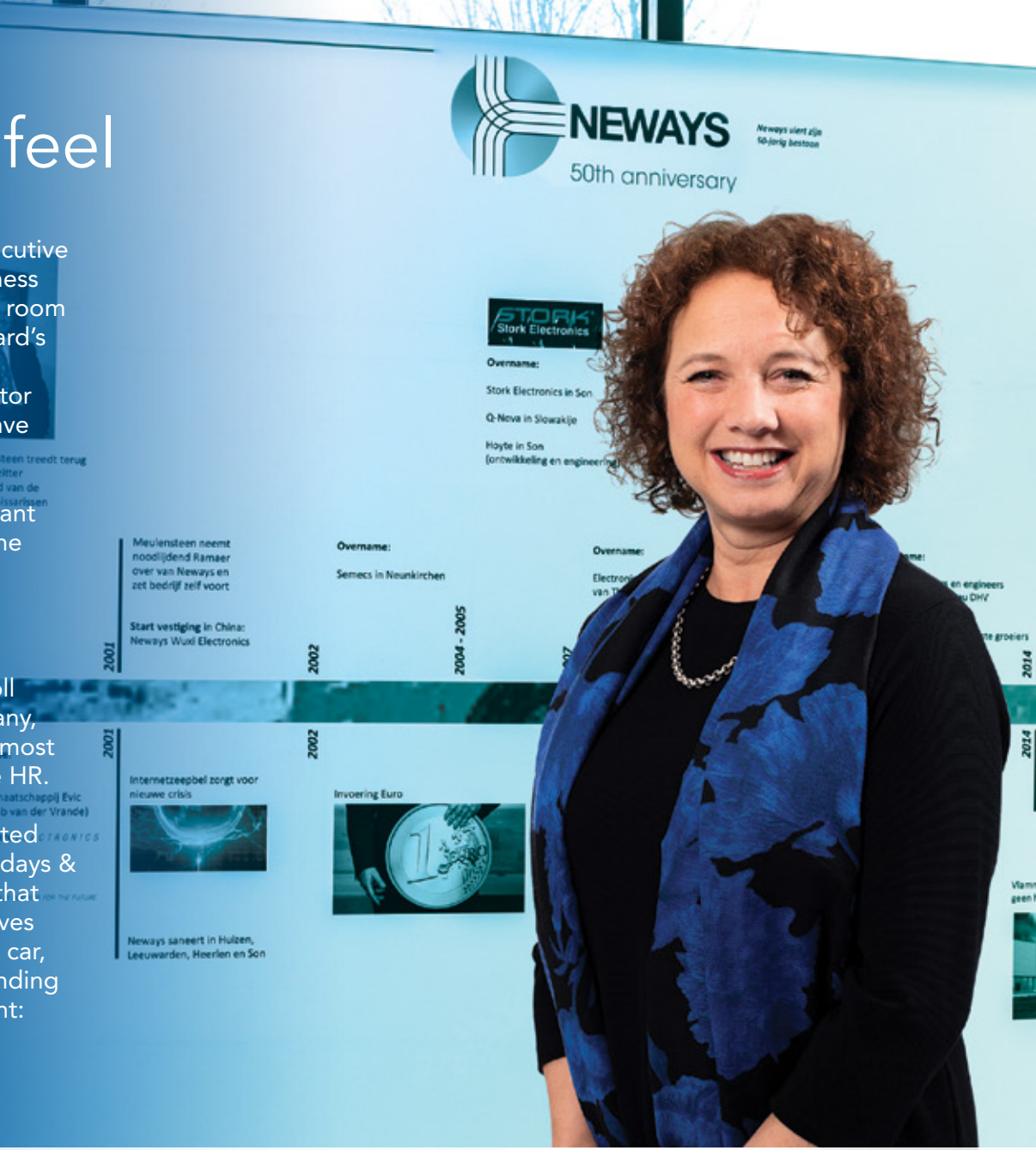
"When I started at Neways in 1980 as founder Gerard Meulensteen's executive secretary, I was just nineteen. We worked from a house behind the business premises in Nuenen. My desk was in the kitchen, Gerard sat in the living room and the financial director had his office in the bedroom upstairs. As Gerard's executive secretary, I was pretty much a Girl Friday, it really was a family business. When a bottleneck occurred in production, the company director also helped pack boxes. I have seen many changes in forty years, and have also grown with the company.

Gerard Meulensteen was a 'people person', that aspect was very important to him. The feelings of cohesion and togetherness have remained, but the expansions have obviously reduced the family feel. I was present during the various acquisitions and have personally watched the business grow into an international company.

I moved from Nuenen to Helmond first, then back to Nuenen with payroll accounting, and have been in Son now since 1997. In the holding company, I and two colleagues are responsible for processing the salaries of the almost one thousand employees in the Netherlands, and we support Corporate HR.

To mark Neways' fiftieth anniversary, I worked with Joep Crolla, a respected journalist, on producing a special anniversary book called Neways Nowadays & Next. That collaboration really reminded me of the wonderful products that Neways makes. Technology has become such an important part of our lives and Neways plays a role in much of that technology. In hospitals, in your car, in the train, when you fill up at a petrol station, get a coffee from the vending machine, have poor hearing, stand under the shower, go to a major event: Neways is indirectly interwoven in our lives. We can be proud of those achievements and should also show our pride."

CONNECTING PEOPLE AND TECHNOLOGY



FAMILY FEEL | EXPERTISE | TALENT | ONE NEWAYS

DIANA MEULENDIJKS-VAN BERNE
PAYROLL ADMINISTRATOR
NEWAYS BV

Key figures and performance indicators

Revenue (€ millions)

2019
533.4

compared to 2018
+5.2%

Normalised operating profit*

(€ millions)

2019
15.9

compared to 2018
-27.7%

Normalised net profit*

(€ millions)

2019
9.1

compared to 2018
-39.7%

Net cash flow**

(€ millions)

2019
16.4

Equity

(€ millions)

2019
106.1

compared to 2018
+4.4%

Interest coverage ratio

2019
5.4

compared to 2018
-51.8%

* Excluding extraordinary income and exceptional costs (see page 22).

** Net cash flow means cash flow from operating activities, plus cash flow from investment activities.

Key figures and performance indicators

Net Debt/ EBITDA ratio

2019
2.2

compared to 2018
+57.1%

Solvency Equity as a % of the balance sheet total

2019
38.2

compared to 2018
-8.0%

Basic earnings per share*

2019
0.75

compared to 2018
-40.4%

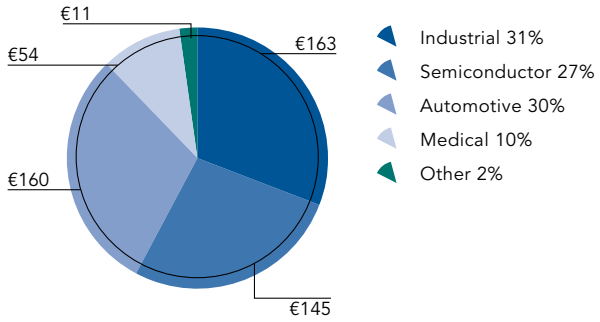
Average number of employees expressed as FTEs

2019
2,940

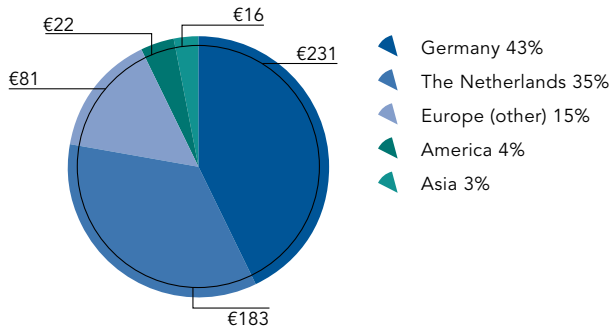
compared to 2018
-0.1%

* Excluding extraordinary income and exceptional costs (see page 22).

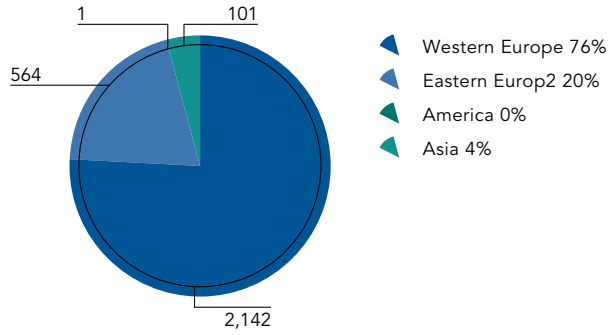
Revenue split by market sector
in millions of euros



Geographical revenue split
in millions of euros



Geographical split of employees
expressed as FTEs



Assembly line for assembling a PCB in an enclosure

INDUSTRIES AUTOMOTIVE MEDICAL INDUSTRIAL SEMICONDUCTOR OTHER

The product is made at one of Neways' sites. As in the past for all products, this product is produced based on the job shop principle, in other words, similar operations are carried out at a single location. The number of operations per type of product may vary. Because this product is now sold in relatively large quantities (for a high-mix, low-volume factory), a study was set up to look closely at efficiencies in the production process. The objective was to achieve an efficiency improvement of 35%.

Analysis revealed that production involved many manual operations and that the product had to be moved on several occasions during the process. The first step was to combine the assembly and test operations, and partially automate some of the manual tasks. In addition, the product was packed immediately after final inspection. These initial adjustments led to an immediately visible improvement.

In order to prevent further waste, each subsequent process step was only enabled once the previous step had been fully completed. This has resulted in a Poka Yoke flow line where human error has been eliminated of the process. Due to the complexity of the product, this step could no longer be performed using manual placement aids and tools, and a number of completely automated checks were introduced. These changes to the process have led to an extremely high yield and a significant reduction in the process time.

Markets and trends

Although we may not be aware of it, electronics plays an increasingly important role in our work and lives. New technologies, such as the Internet of Things (IoT), machine learning and artificial intelligence (AI), big data and robotisation, are leading to ever more electronics in the devices that companies and consumers use on a daily basis. Devices are becoming smarter and electronic components are becoming smaller, more precise, more powerful and more energy-efficient. As functionality increases, so too does the amount of electronics in our customers' products/end products. This is a long-term trend that will continue in the years to come and is a strong, fundamental driver behind the demand for Neways' activities and solutions.

From a more short-term perspective, 2019 was characterised by a high degree of macroeconomic and geopolitical uncertainty. The possibility of a trade war between the United States and China emerged as a very real threat, and Europe continues to be plagued by uncertainty about the effects of Brexit. In 2019, global economic growth weakened to 2.4% (2018: 3.0%) as economic growth in the Eurozone slowed to just 1.1% (2018: 1.9%). In 2020, the World Bank expects a slight recovery, with economic growth increasing to 2.5%[1].

This increasing uncertainty in the world also affected the EMS market and Neways in 2019. In contrast to 2018, when customers still anticipated high demand, resulting in temporary shortages in the supply chain and other problems, there was clearly more volatility and unpredictability in customers' demand and order patterns in 2019.

EMS market sectors

- **Communication**
- **Automotive**
- **Semiconductor**
- **Medical**
- **Computer**
- **Energy/Renewables**
- **Industrial**
- **Aerospace & Defence**

Neways' growth sector focus

- **Automotive**
- **Semiconductor**
- **Medical**
- **Industrial**

Specialised niche player

Markets	Industrial and professional growth sector
Customer base	Mainly Western European OEMs
Main presence	Industrial & Technology regions
Relationship	OEM first-tier partners
Range	Complete *product life cycle* management
Added value	High
Batch production	Low and medium to high volume batches
Assembly complexity	Medium to high mix

[1] *World Bank 2020. Global Economic Prospects, January 2020: Slow Growth, Policy Challenges*

Trends in customer demand

Products are becoming more complex and customers expect more service and support after delivery. Due to new technological advances, electronic components are becoming faster, more precise, more powerful and more efficient. Neways focuses on delivering small and medium-sized, specialised, quite complex product batches and is well-positioned to respond to this trend. In our sector and key account plans, we have identified how we intend to deepen and strengthen our positioning even more effectively in the years to come.

Quality

In the case of products associated with a high mix of components and low production volume, Neways uses Advanced Product Quality Planning (APQP), a framework for industrial production techniques and procedures at OEMs and their suppliers. This framework originates from the automotive industry, but is also suitable for low-volume, high-mix products in other sectors. The framework ensures standardisation of production methods between OEMs and suppliers, and the highly process-focused approach and planning procedures guarantee the desired quality when introducing complex products.

Flexibility

Schedule adjustments are becoming more frequent and customers need supply chain management expertise more often. Neways knows the supply chain inside out and, thanks to the availability of appropriate knowledge and expertise in-house, is ideally placed to assume the role of supply chain manager for customers and help them devise the best supply chain plan and identify alternative sourcing solutions in order to increase delivery reliability.

Innovation

The demand for customisation requires continuous investment in innovation. Many OEMs find it challenging to keep up with new developments, and suppliers are ideally placed to help in this area.

The sectors where Neways operates often involve long supply chains and complex production processes. These are precisely the areas where OEMs like to collaborate on innovation and product development with a product life cycle partner such as Neways.

Market challenges

- Increasing complexity in the supply chain
- Smaller and smaller components and shorter product life cycles
- Fluctuations in demand caused by economic volatility and cyclicity
- Greater attention for sustainability and corporate social responsibility
- Shortage of specific components and technically trained staff

Greater need for agility and full-package service

OEMs

More outsourcing to trusted partners that add value

Unique characteristics

- Technical expertise
- Product life cycle management
- System integration expertise
- Reliable quality and delivery
- Supply chain management support
- Flexible planning and production
- Short lines and open communication
- Close to the market and customers
- Compliant with regulations and standards
- Product traceability
- Ability to share risk and invest jointly

Neway's expertise/competencies

Growth sectors

Neways focuses on four strategically chosen market sectors with attractive long-term growth prospects: (1) Semiconductor, (2) Automotive, (3) Medical and (4) Industrial. Demographic changes and the continuing requirement for smart applications are driving growth in these sectors.

Semiconductor

Semiconductors are the driving force behind many technological developments and advances. The semiconductor industry, including companies that produce or supply semiconductor materials and equipment, is expected to grow. Factors such as the upcoming introduction of the 5G network, the rapid increase in cloud computing, the spread of IoT and the associated growth in demand for smart applications have led to a steady demand for faster and better semiconductors.

Automotive

In 2019, growth in the automotive sector in general was subdued. E-mobility was the exception to this general trend and an area where major growth was apparent. The automotive sector is expected to grow further in 2020, mainly due to rising demand in emerging markets.

McKinsey has identified a number of key challenges for suppliers to the automotive sector[1]. The level of complexity within the sector is growing as a result of increasing regulation. In addition, price pressure in established markets is expected to increase due to the emergence of platforms that facilitate car-sharing.
Consumers are demanding new digital solutions that increase road safety and ease of use. Suppliers must look for innovative technologies, such as active safety systems and infotainment, to add greater value. The European automotive industry must reorganise its capacity in order to better meet these specific needs and compete more effectively with Chinese producers.

Medical

The increase in the size of the world's population and the expanding middle class in countries like China, India and Indonesia have stimulated demand for high-quality medical facilities. Controlling the rising costs associated with an ageing population in Europe and China is one of the main challenges. This requirement for cost control will result in further automation to better facilitate home-based care. The 'hospital of the future' will also change significantly under the influence of new innovations such as block chain technology, medical telemetry, 3D printing and the growing use of virtual support[2], for rehabilitation for example.
The global market for medical devices is expected to grow at a rate of 5.4% per year, reaching 600 billion euros in 2025[3].

Industrial

Neways focuses primarily on three subsectors in the industrial segment: Agriculture, Power & Energy, and Industrial Automation.

Agriculture

Under the twin pressures of a growing global population and a decreasing amount of land available for agriculture, the agricultural sector offers many opportunities for further growth. There is a demand for high-quality food and a higher yield per square metre in order to make better use of agricultural land. This efficiency improvement must go hand in hand with an eco-friendly relationship with the environment. For example, sensor and control applications allow more economic use of resources such as water and pesticides.

Power & Energy

Due to the energy transition and the greater share of renewable energy in the energy mix, the energy supply grid is becoming more decentralised. This requires more control and monitoring. A higher control load on the grid means greater demand for smart systems.

Industrial Automation

Industrial process automation continues to spread to more and more sectors. On the one hand, the demand for robotics is growing, but there is also an increasing need for data collection to monitor and improve the performance of processes.

[1] *McKinsey, The road to 2020 and beyond: What's driving the global automotive industry.*

[2] *Deloitte, The hospital of the future, How digital technologies can change hospitals globally.*

[3] *Fortune Business Insights, Medical Devices Market Size, Share and Industry Analysis by Type, End User and Regional Forecast 2019 - 2025.*

SWOT analysis

Strengths

- In-house technical design and engineering capability
- Full-service *product life cycle* management
- Focus on growth sectors and product market combinations
- Scale size
- Spread of activities across market sectors
- Proximity to markets and customers
- Spread of production capacity across Western Europe, Eastern Europe and China
- Secure position through first-tier, long-term partnerships
- Access to key decision-makers at customers
- Top-10 player with market-leading customers
- Ability to classify projects based on priority

Weaknesses

- Acceptance of product responsibility
- Agility of the Group
- Degree of unity among Group companies
- Suboptimal set-up of work processes and ICT infrastructure
- Rapidity when pushing price changes through the supply chain

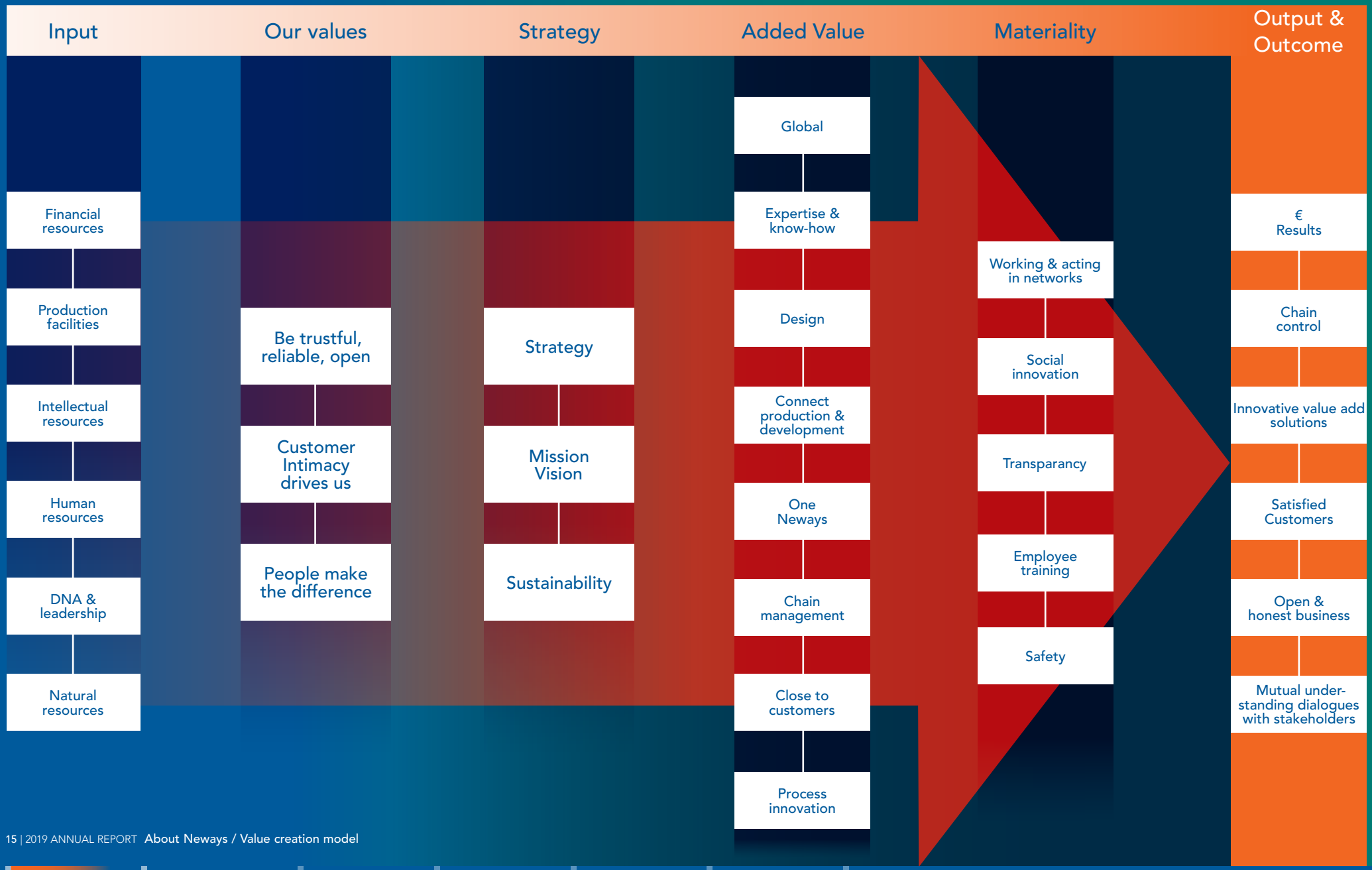
Opportunities

- Increase in the number of intelligent devices
- More added-electronics per device
- OEM partnerships based on Design For Excellence
- Demand for *product life cycle* management and product system integration
- Involvement in product planning at an early stage
- OEMs' requirement for local-for-local business in China
- Consolidation at the bottom end of the EMS market
- Harmonisation of business processes and working methods
- Exploitation of improvement potential within the Group

Threats

- Greater competition and new market entrants due to globalisation
- Shift in production technology from SMD to packaging
- Price competition due to commoditisation
- High demand volatility and short-term schedule adjustments
- Supply chain complexity
- Increase in liability exposure
- Shortage of specific components in combination with price increases
- Shortage of technically trained staff

Value creation model



Impressed by Neways' expertise

"I have worked for Neways for three years now and switched from the industrial to the automotive sector here in Riesa one and a half years ago. Together with colleagues from Erfurt and the Netherlands, I am involved in developing two types of charging cable. Our partners assemble these cables for a number of major European car brands. We started the development work in 2013 and, in close consultation with our partners and end-customers, have now modified and improved the cable. This activity has resulted in several different end products over time, and production quantities are still growing.

Although I have learned a great deal from people outside the company in this process, the expertise that we have in-house in the company is what impresses me most. We have extremely high technical standards and many professional and skilled engineers with an exhaustive knowledge of the products we make. I am proud that I can tell our customers that Neways leads the way when it comes to technical standards. In my opinion, that is why customers come to us. Not just because of the development work, but also because our developers have the knowledge and skills required to help customers optimise a product and adapt it to their specific needs.

The main challenges in the e-mobility sector are increasing the driving range and reducing the time it takes to recharge EVs. Many of our customers are looking for high-voltage applications because they want to offer a cable that makes it possible to charge a car in just five to ten minutes. This requirement leads to all kinds of new challenges. For example, if you offer a cable rated at a much higher voltage for consumer use, stricter safety standards are required."

CONNECTING PEOPLE AND TECHNOLOGY

FAMILY FEEL | EXPERTISE | TALENT | ONE NEWAYS

FELIX BELLMANN
KEY ACCOUNT MANAGER
NEWAYS ELECTRONICS RIESA

Ambition and strategy

Our ambition and strategy remain unchanged. We aim to be the *preferred technology and product life cycle* partner for OEMs and First-tier suppliers in a number of structural high tech growth sectors.

We are moving up the supply chain as a System Innovator. In comparison to the past, when we primarily had a production role as an EMS company, we now offer customers our expertise in many different areas. We are increasingly involved in the development of new, innovative products, we ensure more efficient organisation of production processes and implement improvements in planning and chain management.

We want to be a trusted, long-term partner and, in that role, make a significant contribution to optimising a product's total cost of ownership (TCO). Our ambition fits perfectly with the way demand is changing and customers' increasing reliance on in-house expertise provided by suppliers (for more information, see the section on Markets and Trends on page 11).

We aim to create long-term value. Company growth is an important driver for this, but, partly in view of the below-target results in 2019, our priority in the short term is to strengthen internal process control and increase the Group's flexibility. We must strengthen our defences and improve our ability to react faster to short-term shifts in market demand.

Neways has decided to maintain its strategic course. The focus lies on increasing control over the production process, raising efficiency and linking development and production. We must also react in good time to match capacity to customer demand and focus even more strongly on process improvement.

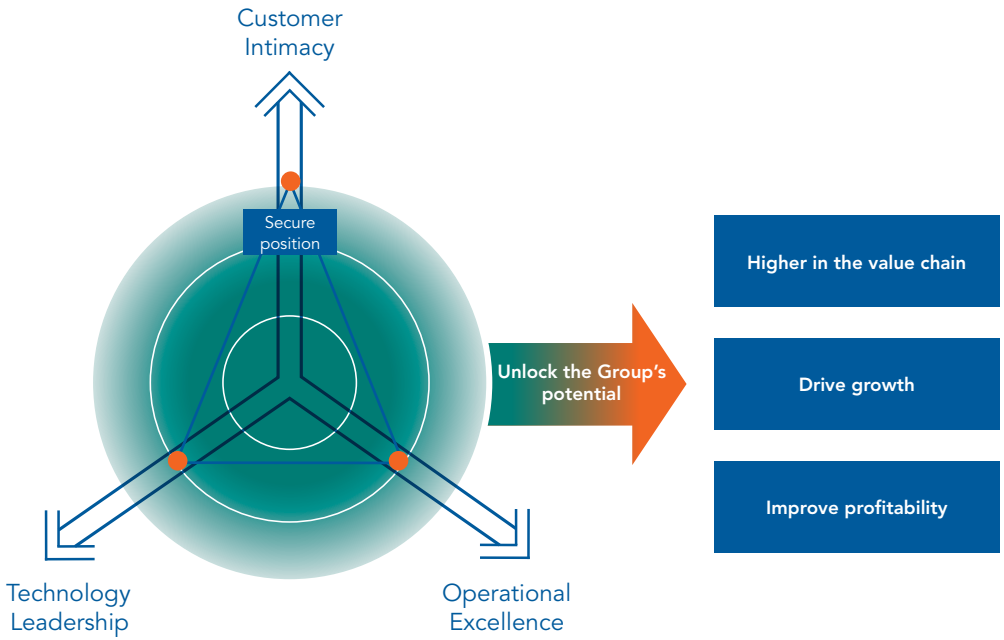
Long-term strategy

By maintaining our strategic course and intensifying our approach, we can add greater value and put ourselves in a stronger position to translate growth opportunities into financial returns.

1. *Customer intimacy:* in the newly introduced account plans, Neways analyses the direction in which all its customers are developing and identifies the associated opportunities and challenges. Neways uses sector plans to develop a better understanding of growth markets and improve our ability to identify opportunities at an earlier stage.

2. *Technology leadership:* Neways is capable of contributing ideas and expertise in all phases of a product's life cycle, from product development and planning to the production process and sourcing materials.

3. *Operational excellence:* customers must be able to rely on fault-free products, flawless execution in production and high delivery reliability.



Customer philosophy

Our customer philosophy is simple. The greater complexity of the products in combination with unrelenting pressure on time-to-market clearly increase the degree of mutual dependency in the supply chain. We want to work for customers who are aware of the benefits of close collaboration, customers who want to invest in exchanging knowledge with a trusted partner in order to achieve optimal total cost of ownership (TCO).

That mutual dependency emphasises the need to create and extend partnerships with our customers. We want to be so tightly intertwined in the supply chain and activities of our customers that they start to see our technical expertise and our chain management role as indispensable assets. At present, we still see significant untapped potential in this area.

We want to help customers unlock that potential. Customers are no longer just interested in the lowest price; they want a full-package service and the knowledge and flexibility that we can offer as a partner, which are needed in order to respond more intelligently and effectively to the short time-to-market requirement in today's fast-moving world. It all starts with a willingness to offer mutual transparency. Then it is up to our people to ask probing questions to identify the real issue and underlying question. The information gives us a better understanding of the context of the question and a head-start in finding the best solution.

Arrogance is not part of our culture, however, we do want to enter into partnerships based on equality. Obviously, we adopt a service-minded attitude towards our clients, but that does not prevent us from looking critically at possible avenues to identify the best solution and engaging in debate on topics where we have sufficient expertise.

We must be clear in our choices and the suggestions we put forward to our customers. Those choices must offer clear added value for them. At the same time, they must also match our own long-term vision so that we can create more value for our shareholders and other stakeholders.

Supply chain management

The components and systems we assemble are made from a growing number of different materials and parts, which we source from hundreds of suppliers in the supply chain. Furthermore, in the current market, there is a shortage of certain parts. This increases the challenges we must overcome in order to deliver products on time as scheduled and bring them to market.

Our strategy and supply chain structure differ greatly depending on the product category, and are tailored to the specific supplier market for that category. We are very aware of our global footprint and try where possible to set up supply chains in the region where an operating company is active: this is better for the environment, reduces costs and is logistically more efficient.

Neways applies a clear QLTCS (Quality, Logistics, Technology, Cost and Sustainability) approach in order to effectively fulfil its role as an end-to-end supply chain manager. We do not use dual sourcing generally, but do make sure that alternative components and manufacturers are available in nearly all cases. Our aim is to concentrate as much revenue as possible with a limited number of suppliers and spend most of our purchase budget with them. This strengthens our partnerships with key suppliers and reduces supply chain complexity. More than ever before, we are entering into strategic partnerships with manufacturers in order to gain direct access to technological developments in the supply chain, ensure component availability and control component costs. As far as costs are concerned, we always strive to achieve the optimal TCO.

In our role as supply chain manager, we are able to focus more effectively and intelligently on innovation capacity and *life cycle management* solutions for our customers. Through integration within the complete chain and connecting different steps more closely, we can involve our suppliers and manufacturers at a very early stage in the customer's design phase in order to shorten the time-to-market, reduce TCO and increase delivery reliability. When we analyse the designs during the development phase of a new product, we proactively point out to our customers how they can optimise the design in terms of manufacturability, functionality and costs. For example, specific components that are difficult to source in certain volumes, or that are going out of production. Our approach creates joint

responsibility in which our suppliers are an integral part of the solution and also enjoy a clear advantage.
This is because supply chain complexity is not only a threat (for more information, refer to the section on risk on page 47), but also an opportunity to serve customers better. We continuously develop expertise and new approaches to supply chain management and sourcing. Thanks to our strong relationships with suppliers and manufacturers, and our intimate knowledge of their production and technology roadmaps, we are aware of the availability of specific components, the alternatives and the latest upgrades. So we have reliable information about quality, delivery reliability and possible second sources, knowledge that helps us make the right choices and set up the supply chain as effectively and transparently as possible for our customer. As a result, we give customers a realistic schedule and can react quickly in the event of possible disruptions.

Strategic priorities and initiatives

The long-term strategy and customer philosophy have been translated into a number of more concrete priorities and strategic initiatives.

Strengthen our competitive advantage

- Develop technological expertise and life cycle management competencies
- Make more specific choices in specialist growth sectors
- Maintain and expand our market dominance and position of leadership in technical knowledge in selected growth sectors and specialist areas of focus
- Improve business process control and the organisation's flexibility

Strengthen autonomous growth

- More strongly prioritise marketing and the acquisition of new customers and new business
- Strengthen *technology and life cycle* partnerships and more effectively exploit growth potential with existing customers
- Move to the front end of NPI (New Product Introductions) procedures and expand our advisory role
- Anticipate market and technological developments and identify opportunities for new product market combinations (PMCs)
- Build a presence and engage in high-quality engineering and development activities with existing and new customers in the chosen growth sectors in Silicon Valley (California)

Increase operating leverage

- Simplify and optimise the supply chain
- Achieve greater standardisation and uniformity in the working methods within the Group
- Ensure tight control and more central management of business-critical processes (supply chain, procurement & logistics, ICT)
- Streamline and strengthen QLTC (Quality, Logistics, Technology and Cost) processes

Optimise capacity usage in the production platform

- Make better product allocation decisions (where to produce) and ensure better utilisation of production capacity across the Group
- Achieve additional cost benefits by transferring batch production orders to Eastern Europe and China

Boost local-for-local business in China

- Proactively respond to growth in the Chinese economy and local demand for electronics applications
- Utilise existing relationships and partnerships in Western Europe
- Serve the offices and factories of OEMs in the Chinese technology region around Wuxi more directly

Board of Directors
From left to right:
Paul de Koning (CFO),
Eric Stodel (CEO),
Adrie van Bragt (COO).

Brief review of 2019

In 2019, due to geopolitical tensions, the level of macroeconomic uncertainty increased. That had an impact on our customers' demand and order patterns during the year. Although orders in hand and the rate of order intake were at a satisfactory level, as in 2018, demand in 2019 was less predictable, resulting in more short-term shifts and schedule adjustments on the part of customers.

Our revenue increased by 5.2% to € 533.4 million. This is a strong performance and shows that we are well-positioned in the chosen growth sectors and for various specialist applications within those sectors. E-mobility, an area where we have created a strong position that allowed us to grow significantly faster than the market in the automotive sector in 2019, accounted for a significant part of the increase in revenue.

However, we were unable to benefit from the growth in revenue in 2019. As a Group, we are not yet flexible enough and need to be able to react both faster and more effectively to the increased volatility in customer demand that was experienced by all our subsidiaries during the year. Although our delivery reliability improved further in 2019, rescheduling production orders involved significant additional expense. In addition, we had to contend with higher start-up costs for new products in 2019. We were able to respond to the need to cut costs to a certain extent by reducing our flexible labour buffer more quickly in areas where that was possible. As a result of these developments, the operating result fell by 28.1% to € 15.1 million and net profit by 41.0% to € 8.5 million.

Strategic progress

We previously determined our strategic course for the long term and continued implementing those plans in 2019. We have made good progress in several areas of high focus.

Increase added value

Customer intimacy is one of the anchors of our strategy. In 2019, in our sector and key account plans for the relevant teams, we identified how we intend to strengthen our positioning towards customers even more effectively in the years to come. These plans allow us to more accurately map the market in which our customers operate, increase our proximity to customers and help us identify trends in order to be able to anticipate changes in customer demand more easily.

The plans also focus on deepening our knowledge of and making well-founded choices within the four targeted growth sectors: semiconductor, automotive, medical and industrial. Partly due to our internal reorientation and limited size, defence is now no longer seen as a separate growth sector. Industrial has been defined in greater detail by identifying three subsectors. In 2019, we clearly see that revenue is now more evenly distributed across the four growth sectors. This even spread will encourage robust revenue growth in the future.

Although customers are the parties that come up with new products and develop concepts, Neways, as a *product life cycle partner*, can add value by working closely together with customers from an early stage in the development process. We also succeeded in winning orders for more New Product Implementation projects from customers in 2019. In addition, we want to focus more on the end-of-production stage. Even after a series has been taken out of production, we want to be available to offer customers support for these components and systems in the form of maintenance, service and advice.

Smarter agreements with customers

Entering into long-term partnerships with customers means that we must also have the courage of our convictions and clearly communicate what is and is not possible. In 2019, we initiated various actions to standardise the order intake process throughout the Group. Before we enter into a new agreement, our sales and account managers must clearly discuss and agree the issues that we see as the most critical from our own perspective. Customers also understand that the complexity of their needs leads to greater mutual dependencies throughout the supply chain and, in that sense, also imposes higher demands on our own suppliers. So they are receptive to reasonable discussion and agreeing more favourable contracts and conditions.

We made good progress towards achieving this in 2019. We are seeing more and better agreements with customers regarding, for example, short-term schedule adjustments and issues related to the customer's internal situation. Those agreements lead to increased joint responsibility and reduce the extent to which the consequences of decisions of this nature can be unilaterally passed on to us. However, it is also clear that we can still make significant improvements here.

Collaboration within the Group and between the different operating companies has also visibly improved in 2019. So we are making progress in this area, but also see that internal outsourcing is still associated with high costs in some cases. Our subsidiaries are becoming more proficient at using each other's skills and capabilities and collaborating in their approach to customers where appropriate, often without intervention on the part of the holding company. Neways Procurement Academy was launched in 2019 as part of the drive to standardise material procurement, and has been rolled out across the entire organisation. More than one hundred procurement professionals have enrolled for a two-year programme that trains them in the latest developments in the field via applications and allows them to share knowledge with each other in interactive modules.

We are strengthening our position as an engineering specialist through attractive partnerships with universities and applied science teaching institutions. In 2019, we were involved in two e-mobility sponsorship projects. As in previous years, we were a Gold Partner in Eindhoven University of Technology's Solar Car project. The development department of Neways Technologies is actively involved in this project. Neways Electronics is a sponsor of the 'Starcraft' e-car project set up by students of the Ilmenau University of Technology (Germany).

Harmonise business processes and strengthen process control

In 2019, work continued on Project One, which focuses on standardising business processes, communication and working methods within the Group. The QLTC processes were thoroughly mapped and defined in 2019 as part of this project. As a result, we will be able to implement these improvements in systems and protocols in the very near future.

Collaboration within the Group and between the operating companies has improved, both operationally and in terms of the commercial aspects. In spite of these advances, we still see significant untapped potential. One Neways requires a change in culture: a different way of working. This is a gradual process, for which we are creating awareness and implementing change through numerous initiatives in the areas of risk management, employees, organisation and ICT.

One spin-off is that we are now reaping the benefits of the five competence centres that focus on (1) Functional Testing; (2) In-circuit Testing; (3), Surface-Mount Technology (SMT); (4) Design for Manufacturing (DfM); and (5) Flexible Manufacturing. These competence centres play a significant role in sharing knowledge and best practices across the Group, determining the best standards and achieving faster online information exchange within the Group.

Optimise the production footprint

In 2019, we continued to expand production capacity and optimise our production footprint. Our new site in China (Wuxi), which mainly produces for European customers, opened officially in April 2019. This modern 6,000 m^2 facility has increased our capacity by 30%. The production areas are climate-controlled and set up based on the LEAN principle in order to optimise the material flow. In addition, the Lean Leadership programme and Neways DNA have been applied to further develop management skills and anchor Neways' values & beliefs.

The redesigned 8,250 m^2 production facility in the Czech Republic opened in April, effectively doubling capacity at this location. Now that we have expanded and modernised the facility at this strategic location, we can offer greater support to our operating companies in Riesa and Neunkirchen in order to meet growing demand from German customers active in automotive and, more specifically, in e-mobility.

In addition, in 2019 we started detailing plans to create a production hub in Slovakia, modelled on the facility in the Czech Republic, which involves merging the two production sites we have there at a single central location and expanding capacity at the same time.

Financial performance

The following summary shows a reconciliation of the operating result and net profit with the normalised operating result and normalised net profit.

€ millions, unless stated otherwise	2019	2018
Operating result	15.1	21.0
Extraordinary income and exceptional costs:		
Amortisation Purchase Price Allocation BuS	0.8	1.0
Normalised operating result	**15.9**	**22.0**
Net profit	8.5	14.4
Extraordinary income and exceptional costs (after tax)	0.6	0.7
Normalised net profit	**9.1**	**15.1**

€ millions, unless stated otherwise	2019	2018	Δ
Net revenue	533.4	506.8	5.2%
Order portfolio	291.4	304.0	–4.1%
Order intake	520.5	547.2	–4.9%
Book-to-bill (ratio)	0.98	1.08	–9.3%

The net revenue increased completely autonomously by 5.2% to € 533.4 million. The decline in the order portfolio to € 291.4 million at the end of 2019 reflects reduced forward planning of orders on the part of customers due to reduced component shortages. This means that the order book is at a healthy level.

Net revenue – by market sector

€ millions, unless stated otherwise	2019	2018	Δ
Industrial[1)]	163	164	–0.6%
Semiconductor	145	149	–2.7%
Automotive	160	130	+23.1%
Medical	54	56	–3.6%
Other	11	8	+37.5%
Total	**533**	**507**	+5.2%

1) From 2019 on, Defence is included in Industrial and no longer reported separately. The comparative figures for financial year 2018 have been adjusted accordingly.

The increase in revenue was largely attributable to Automotive (particularly e-mobility).

€ millions, unless stated otherwise	2019	2018	Δ
Gross margin	196.6	195.2	+0.8%
Normalised operating result	15.9	22.0	–27.7%
Margin	3.0%	4.3%	N/A

The gross margin increased by 0.8% due to the higher level of activity. However, expressed as a percentage of revenue, the gross margin reduced from 38.5% in 2018 to 36.9% in 2019. This was caused by a shift in the mix towards more Automotive and more complex box build assemblies with a higher materials content, and increases in material costs that could not be passed on completely to customers.

Seen over the entire year, the operating costs increased by 4.3% to € 180.7 million in 2019. This cost increase is mainly due to extra effort that was required in the run-up to new projects and actions we had to take in order to manage high volatility in customer demand. Due to these two developments, productivity lagged behind, resulting in an increase in employee costs relative to gross margin from 68.6% in 2018 to 70.4% in 2019. Depreciation increased as a result of IFRS 16 (€ 5.1 million) and the higher level of investment required to create capacity for stronger demand, specifically in the automotive sector. In the last quarter of 2019 in particular, we implemented several initiatives to substantially reduce costs, included an accelerated reduction of our flexible labour force to improve productivity.

Under the influence of these factors, the normalised operating result reduced by 27.7% to € 15.9 million, which equates to a margin of 3.0%. As a consequence, the operating result including incidental items was € 15.1 million.

€ millions, unless stated otherwise	2019	2018	Δ
Finance costs (net)	2.9	2.0	+45.0%
Tax burden	30.2%	24.3%	+24.3%
Net profit	8.5	14.4	–41.0%
Earnings per share (€)	0.70	1.20	–41.7%
Dividend per share (€)	0.28	0.48	–41.7%

The 45% increase in finance costs was largely caused by the effect of IFRS 16, amounting to € 0.6 million in 2019. In addition, the use of customer finance programmes and a higher level of working capital during the year contributed to the increase in finance costs.

The tax burden of 30.2% in 2019 was higher than 2018 due to increased taxation paid in Germany. The net profit and the earnings per share reduced by 41.0% and 41.7% respectively to € 8.5 million and € 0.70 per share, based on 12,149,534 shares in issue at the end
of 2019.

Neways proposes paying a cash dividend over 2019 of € 0.28 per share subject to approval by the shareholders at the forthcoming General Meeting of Shareholders. The dividend proposal equates to a payout ratio of 40%. The dividend will become payable from 4 May 2020.

Financial health

€ millions, unless stated otherwise	2019	2018	Δ
Cash flow from operating activities	29.4	7.6	286.8%
Investments	–13.0	–12.1	7.4%

The cash flow from operating activities increased by € 21.8 million to € 29.4 million due on balance to a reduction in profit, better working capital management and the effect of IFRS 16. The net working capital at the end of 2019 reduced to € 81.5 million compared to € 87.7 million at the end of 2018.

The working capital mainly improved in 2019 due to stricter inventory management and a reduction in inventory of € 14.5 million (-12.6%) at year end. The inventory turnover ratio, measured against invoiced revenue in days, reduced from 85 at the end of 2018 to 72 at the end of 2019. The days sales outstanding was 38, slightly higher than in 2018 (36), mainly due to the higher revenue from automotive where longer payment terms apply. This number still represents good performance however. The days payable outstanding reduced from 64 days at the end of 2018 to 56 at the end of 2019 due to faster payment.

Capital expenditure increased by 7.4% to € 13.0 million (2.4% of net revenue), thereby exceeding depreciation. The investments mainly focused on facilitating growth in e-mobility and organisational improvements. In 2019, the production facilities in Děčin (Czech Republic) were renovated and expanded to a production floor area of roughly 8,250 m^2. The return on capital employed was 11.5% compared to 21.0% in 2018.

The net cash flow showed strong improvement with a positive cash flow of € 16.4 million during 2019, compared to a negative cash flow of € 4.5 million in 2018.

€ millions, unless stated otherwise	Year-end 2019	Year-end 2019, excluding IFRS 16	Year-end 2018
Net debt/EBITDA	2.2	1.3	1.4
Interest coverage	5.4	6.9	11.2
Solvency (based on guaranteed capital)	38.2%	43.7%	41.9%

The net debt (excluding the effect of IFRS 16) amounted to € 34.3 million at the end of 2019, a fall of 18.1% relative to the end of 2018, mainly due to the reduction in working capital. Due to a positive IFRS 16 effect of € 5.1 million, EBITDA remained roughly the same at € 30.3 million.

The interest coverage ratio for the year of 5.4 was negatively impacted by lower profitability and higher interest expenses. Solvency reduced to 38.2% at the end of 2019, compared to 41.9% at the end of 2018, primarily as a result of IFRS 16. If the effects of IFRS 16 are ignored, solvency was 43.7%.

At the end of 2019, Neways met the requirements of the covenants with the banks.
The EBITDA over the last 12 months (LTM) was € 24.2 million, excluding the effect of IFRS 16, and therefore well above the minimum stipulation of € 12.5 million.
The guaranteed capital amounted to € 106.1 million.
The corrected guaranteed capital (guaranteed capital minus intangible fixed assets and deferred tax assets) was € 91.4 million at the end of 2019. This is well above the stipulated amount of € 55.0 million.

One-piece-flow line for complex automotive products

INDUSTRIES AUTOMOTIVE MEDICAL INDUSTRIAL SEMICONDUCTOR OTHER

Rising demand and complexity in the area of e-mobility applications is putting increasing pressure on production capacity. In order to relieve the pressure, we have developed a flow line production concept with linked production steps.

This behaves like traffic on a motorway. If the differences in speed become too great, jams form and production capacity remains unused. A flow can be created by cleverly linking the machine, which increases a better flow.

Furthermore, considerably shorter installation and set-up times can be achieved by focusing on specific products in the production line. The concept of assigning operators to multiple machines reduced the labour component from fourteen to ten employees per shift.

In addition, the following results were achieved:

- reduction in the number of process steps;
- reduced materials inventory;
- direct feedback on quality;
- reduced throughput time from twenty to four days.

The project team included employees from different production and support areas. The resulting interdisciplinary collaboration went smoothly and yielded several proposals for new working methods and many new ideas. The project is currently in its final phase, which includes transfer of the remaining topics to the production team.

Highlights in 2019

Football/volleyball tournament
The third Neways Team Spirit tournament took place on Saturday 6 July. The twelve football and twelve volleyball teams fielded by the Dutch and German Neways operating companies travelled to Bruheze football club to compete for Neways' much coveted Team Spirit trophy. It was once again a very successful sports day.

NME Echt triumphs in the sixth edition of the Neways Improvement Team Competition
For the sixth year running, all Neways operating companies came together for the Improvement Team Competition. The teams were judged based on teamwork, a structured approach and results. The level was extremely high. NME Echt took the challenge trophy home this year. Their improvement project succeeded in increasing the output of a production line by 30%.

Lean Green Belt course
All the candidates successfully completed the first Lean Green Belt course in 2019. The course is part of our High Five programme, which we used to build a culture of continuous improvement.

Health Day in Neunkirchen
On 14 May, the employees of our Neunkirchen site came together for the third Health Day. The workshops on stress and healthy eating were a great success. The healthy breakfast buffet, an abundance of fruit, sugar-free products and home-baked bread, matched the theme of the lectures.

Eindhoven Marathon
The Eindhoven Marathon has won itself a permanent place on our annual agenda. This annual event has become a Neways phenomenon. It was a fantastic, unusually warm day. Even though the temperature climbed to 24 degrees, the relay runners and individual runners rose to the challenge and successfully made it to the finish line.

Neways supports solar-powered electric car project
The Stella Era solar car crossed the line first in the Cruiser Class of the World Solar Challenge. It completed the three thousand kilometre course from Darwin to Adelaide in Australia at an average speed of 70.2 kilometres per hour and only needed 71.24kWh for the entire distance. As a Gold Partner, Neways provides a design review service, designs cables, and produces electronics for this project.

Golf Day

All the stops were pulled out to make the annual Neways Golf Day in Best a special celebration in this anniversary year.
This sun-drenched day with a deserving winner ended on a musical note with a performance by none other than renowned Dutch performer Jan Smit.

50 Years of Neways Electronics

Our 50th anniversary on 7 September was a busy and inspiring occasion. The festivities in NH Koningshof in Veldhoven were heralded in with a spectacular laser show and a review of Neways' past successes.

After this spectacular opening, the doors to the party rooms opened to reveal something for everybody: the Bingo Palace, the Music Hits Festival, the Photo Corner and, last but not least, the Neways Experience. The day ended in dancing and song during the Neways Music Festival, with a performance by famous Dutch singer Gerard Joling.

Management agenda and outlook

Smarter agreements with customers and suppliers, better process control, and greater cost awareness at all levels of the Group are our top priorities for 2020.

In 2019, we learned that responding to major fluctuations in demand requires a huge amount of effort and extra expenditure. Improving productivity, increasing flexibility, acquiring new business and making better agreements with customers have been prioritised as solutions for making Neways' profitability more resilient and raising it permanently to a higher level.

Technological developments in areas such as artificial intelligence, self-driving cars, robotics, machine learning and the Internet of Things will require more electronic connections and complex integral solutions in the years to come. In the light of these trends, the main sectors that show above-average growth are electrification in the automotive market, healthcare, the semiconductor industry and industrial automation. All of them are structural growth segments on which Neways specifically focuses.

This is also reflected by the continuing high level of OEM demand for further outsourcing of design and production activities. These are activities where we see excellent prospects and a solid base for further growth. We want to position ourselves more strongly as a System Innovator and, accordingly, focus on technological solutions with high added value for our customers in specific market segments. As a result, customers will more clearly understand the pivotal management role we play in the supply chain as a Product Life Cycle Partner.

Outlook

The outlook for the growth sectors chosen by Neways is positive. Our order book is well-filled and the balanced spread between the sectors makes us more resistant to possible ups and downs in economic growth. At the same time, the trade negotiations between China and the United States are still taking place in the background and the coronavirus pandemic has left its stamp on international trade. Both of these factors are likely to have an effect on the availability of specific components and customers' short-term order patterns. In addition, we are planning for continued unpredictability relating to the speed of development of e-mobility in the automotive sector.

Our priorities target both generating new business, with the specific aim of strengthening our position as a strategic partner for our customers, and also controlling our costs while simultaneously structuring our global organisation to be more robust and flexible. We intend to achieve the latter mainly through further standardisation of the business processes within the Group, making the internal outsourcing process for production orders more efficient and adopting a uniform order intake process. As we do so, we will look more critically at our risk appetite and the agreements we make in this respect with both customers and suppliers in the value chain.

In 2020, Neways will prioritise growth less and focus more acutely on profitability.

Organisation and employees

Neways' employees are its most valuable asset. As products become more complex, expertise and a good understanding of the technology are becoming more important. In 2015, we identified the company's core values and Neways DNA where customer demand and collaboration form the key elements. Neways continues to build on this and focused in 2019 on collaboration, harmonising work processes and Management & Talent Development.

Neways has fourteen sites, spread across three continents, which were brought into the company by several acquisitions. In order to forge these fourteen separate units into a single efficient whole, Neways has developed a culture programme based on its Neways DNA concept and rolled out that programme in each country. The Neways Lean Leadership Model, a training course that all managers at Neways complete, gives our management teams the tools they need to implement the Neways DNA programme with their employees. This approach brings the added value of our people to the fore and also leads to greater and more effective collaboration between our employees at the various locations.

Organisation

The holding company is responsible for strategic and financial management for the entire Group. In recent years, the holding company's role has been expanded to include new central functions in areas such as logistics, engineering, quality and compliance. In addition to its coordinating role, the holding company increasingly provides support for the operational directors and managers of the operating companies. Furthermore, a number of previously decentralised roles are now centrally staffed, i.e. Component Management and ICT. The holding company employed 70 people at the end of 2019.

Employee mix

Neways employs 2,808 people, of which 2,547 are company employees and 261 are temporary workers. The flexible labour buffer improves Neways' ability to respond to changes in demand. Neways focuses on talent development and monitors the temporary workers closely to identify candidates for permanent employment within the Group. Neways strives to strike a good balance between men and women and younger and older employees.

Proactive mentality	"We relate proactively with both internal and external customers"
Focus on customers	"Good service is meeting your commitments"
Teamwork	"I know my customer"
Flexible and creative	"I do not make mistakes"
We do what we say	"I always stand by my commitments"
Partnership	"I never miss a delivery"
Professional passion	"I am smart in my work"

Employee participation

In the Netherlands, employee participation is organised for each operating company in works councils that are represented at central level in Neways' Central Works Council (CWC) which comprises representatives of the different works councils. During the past year, the CWC met almost every month. At the three German operating companies, employee representation is also organised via a works council.

Report on the CWC's activities

In 2019, the terms of office of several works council representatives expired. In most of the operating companies, the elections went smoothly and the seats were filled. In the operating companies where representatives have not yet been elected, we aim to achieve full representation in 2020. The CWC attaches great importance to the interests of the individual works councils, which do exert influence on policy.

The CWC has an advisory function in several policy areas and also has a right of consent regarding decisions on human resources. The CWC strives to devolve as many central issues to the local works councils as possible. This year, the CWC advocated actively involving employees from the operating companies in strategy formation. The holding company has defined an overall strategy, which each local company is expected to implement within the specified framework. An open invitation has been issued to employees who wish to put forward ideas and help define concrete measures to implement the strategic choices. In 2019, new privacy regulations, a Code of Conduct, a regulation to address harassment and inappropriate conduct and a training course for confidential advisers and a complaints committee were introduced and set up in consultation with the CWC.

The process for working towards One Neways is an important item on the agenda in coming years. The CWC understands that Neways is actually a mix of many different companies, which all have their own history. We are working progressively to create a single company, without losing sight of the strength and uniqueness of the local operating companies. The CWC would like the different operating companies to make more use of each other's expertise and also support each other in peak periods. This set up is also appropriate to a more modern Neways.

Neways is part of a 24-hour economy and employees can benefit greatly from more suitable working hours and smarter processes. In the light of this, the CWC focuses on making the terms and conditions of employment more appropriate, in the interests of both Neways and the employees.

Corporate culture

Our corporate culture is an important aspect of Neways' identity. We aspire to be a 'people business' with high individual attention for employees and their personal development. We value a culture where people feel safe and secure, where they are encouraged to develop themselves and are permitted and do not hesitate to express their opinions. Many employees feel this to be the case, even though the Group is becoming increasingly international and the number of employees is also growing.

One way of working

Our customers' quality requirements are becoming increasingly demanding, projects are becoming larger and more complex, and these factors require a more businesslike attitude on the part of our employees, without compromising our service focus. Harmonising our way of working requires significant effort. The aim is to flexibly and adequately offer our customers even better service in the future. Because this project affects everyone, there is also a clear focus on the leadership skills and soft skills that are needed when implementing a culture change. A pilot project that focuses on implementing the principles of the Neways Lean Leadership Model has been started in Leeuwarden.

Attractive employer

Due to the buoyant business environment, the labour market is still tight, particularly for companies looking for talented, technically trained staff. Neways works closely with government authorities and educational institutions at local level in order to attract staff. In addition, we focus on offering employees specific training to help them develop the skills they need to progress to more demanding positions.

Neways aims to be an attractive employer that offers employees the opportunity of developing themselves. We also differentiate ourselves from other employers in that we are a fairly large, publicly listed international company, but still small enough to give our employees the opportunity of visibly making a meaningful contribution.

Young Potential Talent Programme

Neways has selected experienced business managers and trained them as mentors for twelve young and highly talented employees. These mentors help the young employees develop personally and perfect their leadership qualities. This Young Potential Talent Programme is a great success. Of the first intake of twelve, several participants have already been transferred to different positions. In 2019, this programme was introduced in all the Dutch operating companies. The benefit of the programme is that the participants build their own network within Neways and anchor the knowledge they acquire by putting it into practice on the job. This effect is further enhanced by an easy to use learning app that triggers the participants to implement what they have learned in the areas where they require improvement, and by two corporate projects that they work on jointly as part of the Impact Programme.

Neways Procurement Academy

The Neways Procurement Academy was also launched in 2019 and rolled out across the entire organisation. The supply chain is key to Neways' success: all the parts and components that we assemble are delivered by one of our suppliers. The complexity of the supply market is increasing, as are the demands and expectations of customers regarding our supply chain management capabilities. So, more than one hundred procurement employees are now participating in a two-year programme where they learn about the latest developments in the field with the aid of interactive modules and applications.

Talent

"I've been an HR Manager at Neways Leeuwarden for eighteen months now. I find it a really varied job. The nice thing about this subsidiary is that we combine our down-to-earth Frisian mentality with a readiness to consider new ideas.
We want to organise things properly here, so we explicitly look for new initiatives that improve our processes.

Last year, leadership development was one of the areas of focus. We also worked hard to implement the Lean Leadership Model and the Neways DNA model. In collaboration with Triodin, we have set up a follow-up programme for the Lean Leadership Model, which allows us to track personal development progress. Each manager completes a self-assessment procedure to determine: 'Where am I at the moment, where do I want to be in two years' time and what areas do I need to develop?'

We focus on employer branding and a personal approach to attract new talent. For example, we are currently setting up a collaboration with the municipality of Leeuwarden and the technical schools in the region. The time when you could find an employee who already has all the skills you need is well and truly behind us. We look for colleagues who match our team's profile well and then invest a great deal of time and energy in them. So we consciously look for employees who have the desire and competencies to develop the skills required for a specific position."

CONNECTING PEOPLE AND TECHNOLOGY

KLASKE VELTMAN
MANAGER HR
NEWAYS LEEUWARDEN

Corporate Social Responsibility

Our basic aim is to integrate corporate social responsibility in normal business operations and our strategic cornerstones: *customer intimacy, technology leadership* and *operational excellence*.
We are committed to switching to more environmentally friendly materials, designing production processes to be more sustainable, reducing residual waste and reusing items. These objectives seamlessly match our ambition to operate as a long-term partner for our customers.

Neways prioritises the following areas in corporate social responsibility:

- create and maintain a safe working environment;
- promote the efficient use of water and energy;
- reduce waste and encourage reuse;
- increase local sourcing of materials;
- promote fairness in the supply chain and a more conscious choice of materials;
- stimulate young people's interest in technology.

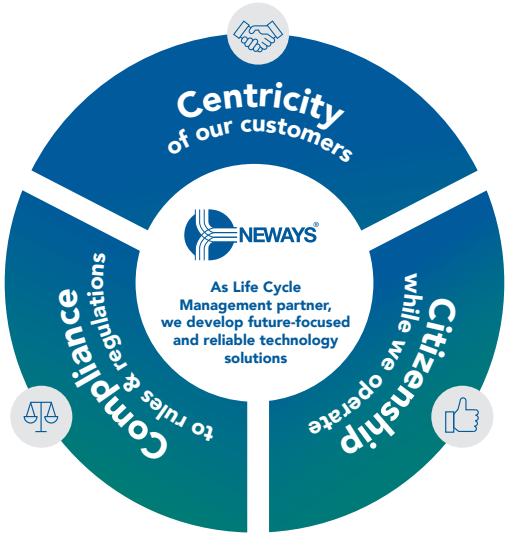
Performance indicators were defined and measured for the first time in 2018. In 2019, we continued this policy and are now able to compare our performance in 2019 against the baseline in 2018.

Vision on sustainability
Neways focuses primarily on the aspects that are relevant to the sector in which we operate and the future of our company. We want to tailor our offer as closely as possible to the choices and dilemmas that our customers face in this area: as a *product life cycle management partner*, we help our customers develop reliable, future-oriented solutions.

Policy and results by priority area in 2019

Safe working environment and healthy employees
Neways' workforce is its greatest asset and we attach the greatest possible value to a safe working environment and the health of our employees.

The table on page 34 shows the number of incidents and the sickness absence rate for the entire Neways Group in 2019. The incidents include both major and minor incidents. Minor incidents involve cuts and grazes whereas major incidents involve serious injury. In 2019, the criteria for incidents and near-misses were defined more precisely and aligned within the Group. This is not only intended to improve the quality of the data, but also to help employees report incidents and accidents more effectively and resolve unsafe situations.



In 2019, 118 minor incidents occurred and there were 79 near-misses.
There were no major incidents in 2019. The number of incidents increased slightly relative to 2018. During the past year, much attention was given to consistent registration of incidents and this may explain the slight increase.

Incidents and sickness absence	2019	2018
Major incidents	0	0
Minor incidents	118	110
Near-misses	79	67
Sickness absence rate	4.2%	4.8%

Employee involvement and education play an essential role in preventing and resolving incidents and long-term sickness absence. We aim to increase safety awareness throughout the organisation by making it easier for employees to report incidents – including minor ones – and near-misses. This focus on seemingly minor incidents is intended to raise awareness and help prevent more serious incidents.

In order to ensure a safe working environment, each Neways site has its own coordinator who is responsible for monitoring compliance with safety regulations. In 2019, the Material Safety Data Sheets for working with dangerous substances were revised.
The standardised way of working has been harmonised across all the operating companies.

The safety policy is regularly assessed by the management teams at the individual operating companies. For example, members of the Safety, Health, Welfare and Environment Committee at the individual sites regularly perform safety inspection rounds at their facilities in the presence of a representative of management and a member of the company emergency response team. Other safety activities include regular company emergency response and First Aid training courses and regular evacuation drills to ensure that everybody can respond adequately if required.

Among other things, the Neways Code of Conduct highlights our commitment to respecting human rights and good working conditions around the world, interacting with each other respectfully, and integrity and ethical conduct. The Code of Conduct is available for reference on the corporate website (www.newayselectronics.com). A number of additions were made to the Code of Conduct in 2019. Data safety and security and safeguarding the privacy of customers and employees have now also been included in the Code of Conduct.

Efficient use of energy and water

Neways aims to reduce its consumption of energy and water for production activities. When building new production facilities and extending existing production facilities, we ensure compliance with modern energy efficiency standards. Neways also wants to reduce its use of fossil fuels and limit its ecological footprint. In 2019, an energy audit was performed in accordance with the European Energy Efficiency Directive. The results of this audit have been analysed and translated into sustainability policy and sustainability objectives.

Energy

In 2019, Neways started a project to identify the extent to which the Dutch operating companies use green energy to meet their energy requirements. Our goal is to make greater use of renewable energy for our daily operations. In 2019, solar panels for in-house electricity generation were installed at the site of the holding company and Neways Industrial Solutions in Son.

We also started offering electric lease cars this year. Everybody working for Neways in the Netherlands who is eligible for a lease car can now choose an electric vehicle, and a scheme has been set up to make this financially attractive. We have also put the required infrastructure in place to encourage the use of electric vehicles.

The renovation work carried out recently at one of our operating companies, Neways Cable and Wire Solutions, included a heat recovery system and a new climate control and building management system, and all the lighting was converted to LED technology. At Neways Micro Electronics, we installed four new energy-saving, high-efficiency central heating systems.

Water

Clean water is becoming a scarce commodity under the pressure of a growing global population. For Neways, designing production processes to waste as little clean water as possible is an obvious solution. In addition to reducing water consumption for its own activities, Neways helps customers produce efficiently and use water sustainably. Customers in the industrial sector in particular benefit from Neways' products that help them produce using less water or safeguard water quality.

The table on this page shows the absolute consumption of energy and water within the Group, and the relative consumption based on revenue. Our objective here is to achieve a better energy efficiency ratio, i.e. the number of terajoules (TJ) divided by the revenue in millions of euros.

We also measure our absolute and relative consumption of water, in this case the number of cubic metres divided by the revenue in millions of euros. In 2019, although the energy efficiency ratio reduced slightly, the water efficiency ratio showed a slight improvement. Reducing our consumption of energy and water is part of our programme to make production processes more efficient, and is a priority for Neways.

Energy and water consumption	**2019**	2018
Energy consumption (TJ)	79.26	80.29
Energy efficiency ratio (TJ/€ millions)	0.149	0.158
Water consumption (m^3)	27,583	25,336
Water efficiency ratio (m^3/€ millions)	51.75	49.99

Waste and reuse

Neways limits its use of raw materials and consumables in two ways: firstly, by making production processes more efficient and, secondly, by recycling waste to the greatest possible extent. Neways Cable and Wires Solutions set up a separate waste flow for packaging plastic in 2019 and extra investments were made in refuse compactors, reducing the waste processor's vehicle deployments from five runs per week to one run per quarter.

Smart use of materials not only has a positive impact on our climate, it also generates cost savings for Neways and our customers.

In accordance with Article 19a of EU Directive 2014/95/EU on the disclosure of non-financial information and diversity information, Neways is currently taking action to limit the potential environmental risks associated with its activities. During the course of the year, Neways regularly checks its production emissions for the presence of dangerous substances.
In addition, the small quantities of dangerous substances that we require for our work are kept in a locked, explosion-proof area and each substance is stored in separate leak-proof containers. Neways does not require environmental permits to carry out its operating activities.

The table below shows Neways' waste flows, split into chemical and industrial waste, both in terms of total quantities and the percentage of the plastic and materials that Neways recycles as a group. Even though the total quantity of waste has increased slightly due to growth in revenue, the different investments we have made in order to recycle waste flows have led to a sharp increase in reuse.

Waste and recycling	**2019**	2018
Waste (total) x 1,000 kg	1,011.8	936.8
Chemical waste x 1,000 kg	35.8	35.3
Industrial waste x 1,000 kg	737.8	764.8
Recycled waste (total) x 1,000 kg	751.8	598.6
Plastic waste (% of total)	11.5	12.2
Materials waste (% of total)	62.8	51.7

Local sourcing of components

We can make a real impact by collaborating with all the parties in the supply chain.
In addition to using and implementing sustainable production methods, we are committed to making the supply chain more sustainable. One of our objectives is to act as a knowledge partner for our customers in relation to sustainability in the supply chain. We share our

knowledge of sustainability with customers and make recommendations regarding sustainable components and suppliers.
As a knowledge partner, we offer authoritative guidance on responsible and sustainable production methods and compliance with valid legislation and regulations relating to working conditions and the environment.

We set up our supply chains as efficiently as possible and try to limit their ecological footprint by reducing the distances components have to travel. Where possible, Neways collaborates with local suppliers: 65% of all materials and parts procured in 2019 were purchased locally. This is the percentage of the purchase budget spent with suppliers within a distance of 600km from a Neways operating company.

Local procurement	**2019**	2018
Procured locally (%)	65.0	60.3

Fair supply chain and conscious choice of materials
The contracts Neways enters into with its suppliers require them to comply with all applicable legislation and regulations relating to working conditions, corruption, the environment and other aspects. Among other things, our Code of Conduct explicitly prevents Neways from doing business with organisations that violate fundamental human rights and do not operate in an ecologically responsible manner.

Specific attention is given to the origin of materials and parts purchased and used by Neways. Minerals are among these materials. Tungsten, tin, tantalum and gold, also known as 3TG, may originate from conflict zones such as the Democratic Republic of the Congo or one of its neighbouring countries, in which case these are referred to as 'conflict minerals'. The proceeds from the sale of conflict minerals are used to fund armed conflict and can result in human rights violations, environmental abuse and forced labour. When importing materials, Neways complies with its supply chain due diligence obligation under EU Regulation 2017/812, and with all other relevant regulations, as set out by the Electronic Industry Citizenship Coalition (EICC), the American Dodd-Frank Act, and the Responsible Business Alliance.

We also help customers by identifying suppliers that may be using conflict minerals. We report the findings of the mandatory due diligence investigation in the Conflict Minerals Reporting Template (CMRT). Our goal is to screen a progressively larger part of our supply chain and suppliers in this manner each year. In 2019, 93.5% of our suppliers were known not to sell components containing conflict minerals. This percentage was quite modest at 75% in 2017, but increased sharply to 90% of our suppliers in 2018. We want to clarify this issue in relation to all suppliers as soon as possible.

In cases where we identify the use of conflict minerals, Neways' first action is to initiate discussions with the supplier concerned and request the use of different materials. If that request falls on deaf ears, Neways investigates possible alternative solutions with customers and suppliers. Generally speaking, Neways communicates proactively with employees and other stakeholders to raise awareness in relation to conflict minerals and the need to exclude their use.

Interest young people in technology
Neways wants to raise society's interest in science and technology and encourage pupils and students to choose STEM (Science, Technology, Engineering, Mathematics) subjects. These are not only crucial for Neways but also for the Dutch economy in the 21st century. Neways sees this encouragement as a form of corporate social responsibility in relation to the local communities where it operates. At the same time, these initiatives will improve our ability to recruit new, technically skilled employees. Neways has been a partner of Solar Team Eindhoven since 2013, Neways Electronics sponsors the Starcraft e-car project set up by students at the Ilmenau University of Technology (Germany), and Neways Technologies participates in the Robocup project at Eindhoven University of Technology.

Fully automatic line for assembling a sensor

INDUSTRIES AUTOMOTIVE MEDICAL INDUSTRIAL SEMICONDUCTOR OTHER

Fully automatic production line for a sensor

Everybody has experienced this at some time: you are in your car and suddenly smell odours from outside, even though the windows are closed. Neways Neunkirchen produces a module that eliminates this problem. The module automatically controls the air conditioning system.

The fully automated production lines for the module are extremely complex systems that include more than 30 integrated assembly and test stations. The lines produce a 100% functional assembly, consisting of a PCBA, an upper and lower enclosure, a bayonet fitting and a Cortex membrane, without any manual intervention.

The line cycle time is currently 12 seconds, which allows us to generate an annual output of around 5.25 million units. Two employees per shift ensure that the three lines are continuously supplied with materials and take action to minimise downtime if faults occur. Rejected parts are analysed by the employees and, if possible, fed back into the production line. The products are also packed fully automatically on the line. The complete process, which includes an additional manual final check, results in delivery of 100% good product to the customer.

Supervisory Board, Board of Directors and management team

Situation as at 31 December 2019

SUPERVISORY BOARD*

Henk Scheepers (1949) (m) Chairman

René Penning de Vries (1954) (m) Deputy Chairman

Peter van Bommel (1957) (m)

* In view of the size of the Supervisory Board, no special committees were set up.

Henk Scheepers (m)

- Appointed as Chairman in 2015
- First appointment in 2012, Deputy Chairman
- Current appointment until 2020
- Nationality: Dutch
- Positions:
  Former Senior Vice President of ASML/ member of the Executive Committee/ Director, ASML The Netherlands BV
- Chairman of the Supervisory Board, Solliance

René Penning de Vries (m)

- First appointment in 2013
- Current appointment until 2021
- Nationality: Dutch
- Positions:
  Former CTO and member of the Board of Directors, NXP Semiconductors
- Chairman of the Supervisory Board, Brabantse Ontwikkel Maatschappij (BOM)
- Chairman of Stichting Health Valley
- Leader ICT Top Team (Ministry of Economic Affairs)
- Chairman of the Supervisory Board, St. Maartenskliniek
- Member of the Board of Directors, NWO-TTW
- Chairman of Stichting PhotonDelta

Peter van Bommel (m)

- First appointment in 2015
- Current appointment until 2023
- Nationality: Dutch
- Positions:
  CFO and member of the Board of Directors, ASM International N.V. (ASMI)
- Member of the Supervisory Board, KPN N.V., reappointed in 2016
  Current appointment until April 2020
- Chairman of the Audit Committee, KPN N.V. since 2016
- Non-executive director, ASMPT (Hong Kong) since 2011
- Director, Stichting Bernhoven since 2017

BOARD OF DIRECTORS

Huub van der Vrande (1955) (m)	CEO to 31/12/2019
	Other positions: None
Paul de Koning (1963) (m)	CFO
	Other positions: Member of the Supervisory Board, Stichting Elkerliek Ziekenhuis
Adrie van Bragt (1965) (m)	COO
	Other positions: None
Eric Stodel (1965) (m)	CEO effective from 1/1/2020

Eric has held senior management positions at several companies including Flextronics (Solectron), Driessen, B/E Aerospace, and Marinoffs.
He successfully completed the Master of Science in Industrial Engineering and Business Administration programme at the University of Twente. As CEO, he is a member of the Board of Directors, together with Adrie van Bragt (COO) and Paul de Koning (CFO).

NEWAYS SENIOR MANAGEMENT TEAM

Michael Berger (1969) (m)	Managing Director, Neways Neunkirchen
Wendy van der Bij-Hereijgers (1977) (f)	Corporate Head of Business Improvement & Internal Control
Peter Bouwsema (1968) (m)	Corporate Head of Supply Chain
Gijs van Dam (1975) (m)	Corporate Head of Engineering, to 30/9/2019
Harrie van Houtum (1959) (m)	Corporate Head of Operations
Gerard Jacobs (1967) (m)	Managing Director, Neways Cable & Wire Solutions
Joop Kempe (1963) (m)	Corporate Head of ICT
Hans Ketelaars (1957) (m)	Managing Director, Neways Technologies
Jeroen Knol (1968) (m)	Managing Director, Neways Micro Electronics
Bob Konings (1971) (m)	Managing Director, Neways Industrial Systems
Joan Leeuwenburg (1969) (f)	Corporate Head of Human Resources
Robert Loijen (1976) (m)	Managing Director, Neways Advanced Applications
Ruud Meeren (1983) (m)	Corporate Head of Legal Affairs
Jörg Neukirch (1958) (m)	Corporate Head of New Business
Michel Postma (1972) (m)	Managing Director, Neways Leeuwarden
Koen Rijnsaardt (1969) (m)	Corporate Head of QESH & Program Manager
Wim-Jan van Rooijen (1957) (m)	Managing Director, Neways Electronics Riesa
Peter Wisse (1959) (m)	Corporate Head of Control
Menno Wolf (1970) (m)	Corporate Head of Procurement

Our e-mobility project is a true market innovation

"As the System Architect responsible for developing intelligent charging cables, I coordinated two projects to the batch production stage. During the course of this project, I was appointed as teamleader for the automotive team and am currently operational manager at the Neways Technologies facility in Erfurt.

I have been involved in the e-mobility project since the initial concept development phase. At the start, more than five years ago, no definitive standard existed and our partner did not yet have any customers. Our involvement at such an early stage in the development process has clearly given us a head start. The ball really started rolling when the first customers showed interest, and the product has proved itself to be a true market innovation. In hindsight, the fact that we were involved in development at such an early stage has been a huge boost in helping us win our current large market share.

We encountered huge challenges during this project. However, those challenges had a positive effect as they helped us to work as One Neways. I can safely say that the short deadlines and constant pressure from our end customers significantly accelerated the process of integrating all the different sites. This was a joint effort and the project has shown that we are capable of working together smoothly under huge pressure to find solutions."

CONNECTING PEOPLE AND TECHNOLOGY

FAMILY FEEL | EXPERTISE | TALENT | ONE NEWAYS

ANDRÉ BUTTNER
OPERATIONS MANAGER DE
NEWAYS TECHNOLOGIES GMBH

Corporate Governance

Neways Electronics International N.V (Neways) is a two-tier company under Dutch law and is not associated with protective or control arrangements in the form of a trust office or depositary receipts for shares.

Our governance structure is based on Book 2 of the Dutch Civil Code, the company's articles of association, and the Dutch Corporate Governance Code. All relevant regulations and reports are available on our corporate website. The Board of Directors and the Supervisory Board are responsible for the governance structure, which is periodically evaluated.

Neways is committed to good corporate governance and, to that end, endorses the principles of the Dutch Corporate Governance Code (the Code) and the importance of an equitable balance between the interests of the different stakeholders.

Statement

The corporate governance statement is a statement within the meaning of Section 2a of the Dutch Decree adopting Further Rules on the Contents of Annual Reports (dated 20 March 2009).
The information that must be included in this statement pursuant to Sections 3, 3a and 3b of said decree can be found in the following sections of this report:

- compliance with the Code's principles and best practice provisions – page 41;
- the principal features of the risk management and control systems for the Group's financial reporting process, described under 'Risks and risk management' – page 47;
- the functioning of the General Meeting of Shareholders, its principal powers, and the rights of the shareholders and how these can be exercised – page 44;
- the composition and tasks of the Board of Directors – page 42;
- the composition and tasks of the Supervisory Board – page 43 and page 54;
- the rules for appointing and replacing members of the Board of Directors and Supervisory Board – pages 42 and 43;
- the rules for amending the company's articles of association – page 44;
- the powers of the of Board of Directors to issue and repurchase shares – page 44;
- the transactions with associated parties – page 93.

Compliance with the Code

The revised Dutch Corporate Governance Code was published on 8 December 2016. We comply with the principles and provisions set out in the Code wherever possible and relevant.

In 2019, we amended our procedures and regulations – where necessary – to ensure compliance. The following should be noted in relation to the best practice provisions of the Code mentioned below:

Best practice provisions 2.1.5 and 2.1.6

Nominees for membership of the Board of Directors and Supervisory Board are primarily proposed based on their experience, expertise and personality. When selecting nominees for membership of the Supervisory Board and the Executive Board, diversity is sought in terms of nationality and ethnicity, gender, age, education and professional experience, technical expertise and competencies. There was no diversity in terms of nationality and gender in the Board of Directors or Supervisory Board in 2019. The policy on diversity is set out in the Regulations for the Supervisory Board.

Best practice provision 2.7.4

In financial year 2019, there were no transactions that involved conflicts of interests in relation to members of the Board of Directors or the Supervisory Board.

Best practice provision 2.7.5

All transactions that have taken place between Neways and natural or legal persons that hold at least 10% of the shares in the company have been agreed subject to terms that are customary in the sector.

Deviation from the Code

Due to the size of the Group, we believe deviation from the best practice provisions in a number of areas to be in the company's best interest. Further details of these deviations are provided below, in line with the 'comply or explain' principle:

Best practice provision 2.2.1
Members of the Board of Directors who joined the Board before 2019 are appointed for an indefinite period of time. In accordance with the Code, members who join the Board of Directors from 2019 onward are appointed for a period of four years.

Best practice provision 2.3.2
Because the Supervisory Board only consists of three members, no committees have been set up. The roles of the Selection and Appointment Committee, the Remuneration Committee and the Audit Committee are therefore fulfilled by the complete Supervisory Board.

Best practice provision 4.2.3
When the half-yearly and annual figures are published, Neways organises a meeting where the Board of Directors explains the results to analysts and the financial media. These meetings are well attended and positively received. In view of these positive reactions, we have decided that a meeting is preferable to a webcast. The presentations made by the Board of Directors are available on our corporate website.

Code of Conduct
In 2018, we agreed and adopted a new Code of Conduct. This Code of Conduct provides guidelines relating to the health and safety of the employees active within our company. In addition, the Code of Conduct sets out guidelines on the conduct expected of our employees and of the company as a whole, and relating to our impact of on the local community and the environment.
A number of additions were made to the Code of Conduct in 2019.

The Dutch General Data Protection Regulation (*Algemene Verordening Gegevensbescherming/ AVG*) came into force in May 2018.
The Code of Conduct has been updated accordingly and now also includes policy and guidelines relating to how Neways handles data and privacy.

When representing Neways, employees are expected to carry out their work in accordance with the standards, values and guidelines set out in the Code of Conduct. The Code of Conduct is available for reference on our corporate website.

Whistleblower policy
We value integrity and an open, honest culture. This type of culture reduces the risk of improprieties and irregularities. Nevertheless, we need to maintain constant vigilance to detect possible problems. To facilitate safe and structured reporting of suspected improprieties and irregularities, Neways revised the whistleblower policy in 2019 in consultation with the Central Works Council.

The basic principle of this policy is that internal investigations are carried out first in the event of a suspected irregularity to determine whether that suspicion can be allayed. Only if this is not possible, or does not result in an improvement, will the matter be reported to an external authority.
The whistleblower policy is available for reference on our intranet.

Board of Directors

Tasks
Neway's Board of Directors consists of three members and is responsible for the Group's strategy, central management and performance. The members of the Board of Directors work in close cooperation and visit the operating companies every two months, either individually or together with other members. The Board of Directors receives detailed progress reports on a weekly and monthly basis. The Board of Directors is also responsible for compliance with all relevant legislation and regulations and effective operation of the internal risk management and control systems.

These tasks are carried out under the watchful eye of the Supervisory Board. The Board of Directors provides all information in a timely manner and makes the necessary resources available for proper performance of the Supervisory Board's monitoring tasks.

Appointment
The Supervisory Board appoints the members of the Board of Directors. From 2019 onward, members of the Board of Directors are appointed for a period of four years. Before 2019, new members of the Board of Directors were appointed for an indefinite period of time.

The General Meeting of Shareholders must be notified of a proposed appointment. Members of the Board of Directors may not serve on more than two supervisory boards nor

serve as the Chairman of a supervisory board. More information on the composition of the Board of Directors in 2019 is provided in the section entitled Supervisory Board, Board of Directors and management team in this annual report – page 38.

Suspension and dismissal

The Supervisory Board periodically evaluates the performance of the members of the Board of Directors. The Supervisory Board has the right to suspend or dismiss the members of the Board of Directors. The members of the Board of Directors cannot be dismissed directly by the General Meeting of Shareholders.

Remuneration

Neways' remuneration policy for the Board of Directors focuses on value creation in the long term. The General Meeting of Shareholders approved and adopted the current remuneration policy in 2017. The remuneration policy is available for reference on the corporate website (www.newayselectronics.com).

In line with recent new legislation based on the EU Shareholder Rights Directive II (SRD II), the remuneration policy for the Board of Directors has been revised and amended in a number of areas. This amended policy is also available for reference on the corporate website (www.newayselectronics.com) and will be submitted in this form to the General Meeting of Shareholders on 16 April 2020 for approval and adoption.

The 2019 remuneration report is also available for reference on the corporate website (www.newayselectronics.com) and will be submitted as an advisory document to the General Meeting of Shareholders on 16 April 2020. More information on the remuneration of the Board of Directors in 2019 is also provided in the financial statements on page 94 of this report.

Supervisory Board

Independence

The Supervisory Board operates independently of the Board of Directors. The members of the Supervisory Board act independently within the meaning of the Code, are not part of management and may also not be employed by Neways.

Tasks

The Supervisory Board monitors the policies and performance of the Board of Directors. In addition, the Supervisory Board has an advisory function that focuses on the best interests of the company, taking into account the relevant stakeholder interests. The basic principles of responsible entrepreneurship are taken as the guideline for this.

The Supervisory Board and the individual members perform their supervisory and advisory tasks based on the extensive information required for this purpose that is provided by the Board of Directors. In addition, the Supervisory Board obtains information from other company officers of Neways, external parties that advise Neways and, if necessary, the Supervisory Board's own advisers. Neways provides the resources required for this purpose.

Appointment

Members of the Supervisory Board are appointed (or reappointed) by the General Meeting of Shareholders for a period of four years. When a new appointment is to be made the Supervisory Board has the right of nomination based on the associated profile description. This profile description is available on our corporate website. The Central Works Council has an 'enhanced right of recommendation' for one third of the number of supervisory directors. This recommendation can be adopted by the Supervisory Board.

The Supervisory Board appoints a Chairman and a Deputy Chairman. The Chairman may not be a former member of the Board of Directors of Neways. In view of the size of the company, there is no formal introduction programme for Supervisory Board members. More information on the composition and relevant other positions of the Supervisory Board in 2019 is provided in the section entitled Supervisory Board, Board of Directors and management team in this annual report – page 38.

Suspension and dismissal

The General Meeting of Shareholders has the right to dismiss the entire Supervisory Board. Individual members of the Supervisory Board cannot be dismissed directly by the General Meeting of Shareholders.

Remuneration

The General Meeting of Shareholders can, in line with a proposal submitted by the Supervisory Board, allocate remuneration to the members of the Supervisory Board. This remuneration does not depend on the company's results.

In line with recent new legislation based on SDR II, a remuneration policy has now also been drawn up for the first time for the Supervisory Board. This policy is available for reference on the corporate website (www.newayselectronics.com) and will also be submitted to the General Meeting of Shareholders on 16 April 2020 for approval and adoption. More information on the remuneration of the members of the Supervisory Board in 2019 is also provided in the financial statements on page 96 of this report.

General Meeting of Shareholders

The General Meeting of Shareholders is convened at least once a year and chaired by the Chairman of the Supervisory Board. The General Meeting of Shareholders is minuted and these minutes are made available for reference on the corporate website (www.newayselectronics.com).

Decision-making process

All resolutions are adopted based on the principle of 'one share, one vote'. Shareholders, acting alone or jointly, with a joint interest of at least 1% of the issued share capital have the right to request the Board of Directors or Supervisory Board to put certain items on the agenda. Requests are granted if they are submitted in writing at least sixty days prior to the date of the General Meeting of Shareholders.

Important management decisions that involve a change in the identity or character of the company or its business must be approved and adopted by the General Meeting of Shareholders. This applies, in any case, to all management decisions relating to the transfer of the entire company or virtually the entire company, entering into or terminating long-term partnerships, and the acquisition or disposal of participations worth at least one third of the consolidated balance sheet total.

The policy on profit sharing and dividend is submitted separately to the shareholders. This also applies to substantial changes in the corporate governance policy, including any changes in the remuneration policy for the Board of Directors and the Supervisory Board.

Extraordinary General Meeting of Shareholders

An Extraordinary General Meeting of Shareholders is convened if prescribed, or if the Supervisory Board or Board of Directors deems it desirable. Shareholders representing at least 10% of the issued capital may also submit a written request for an Extraordinary General Meeting of Shareholders to the Supervisory Board and the Board of Directors, stating the matters to be discussed.

Powers

The General Meeting of Shareholders has the following general powers:

- adopting the financial statements;
- discharging the Board of Directors from all liability in respect of the policies it has applied;
- discharging the Supervisory Board from all liability in respect of its supervision of those policies;
- adopting profit sharing/dividend payment proposals;
- approving management decisions relating to a significant change in the company's identity or character;
- adopting significant changes in the company's corporate governance policy;
- appointing members of the Supervisory Board;
- dismissing the entire Supervisory Board;
- adopting the remuneration policy for the Board of Directors and the Supervisory Board;
- approving the remuneration of the individual members of the Supervisory Board;
- taking decisions on the issue of shares, granting rights to subscribe for shares (option rights), or on giving the Board of Directors decision-making authority in this respect for a certain period of time, possibly subject to exclusion of the pre-emptive right of shareholders;
- appointing the external auditor;
- passing a resolution to amend the articles of association based on a proposal submitted by the Board of Directors;
- authorising the Board of Directors to purchase shares in the company.

The agenda and explanatory notes for the annual General Meeting of Shareholders to be held on 16 April 2020 have been posted on Neways' corporate website.

Production of an integrated connectivity solution

INDUSTRIES AUTOMOTIVE MEDICAL INDUSTRIAL SEMICONDUCTOR OTHER

In 2019, Neways attained an even higher level of product complexity and process development in the field of connectivity. In recent years, Neways Cable & Wire Solutions (NCWS) has acquired significant experience with various cable assembly techniques.
From the very start, we worked closely with the customer to design development processes for new products.

We have started to produce cables that will be used in vacuum systems and therefore have to meet strict purity standards. In addition to electrical applications, we have specialised further in cables for systems that transport gases and fluids, e.g. for heating and cooling. Neways is also able to carry out high-voltage tests for full product validation.

With these steps, in 2019 NCWS was able to collaborate with customers to develop new designs that combine all these competencies. After producing the first prototypes, we implemented a standardised release process, which has resulted in reliable production of extremely complex cables. As a result, Neways can offer customers high-quality connectivity solutions for each phase of the product life cycle.

Market and commercial risks	
Cyclical fluctuations	• Spread across market sectors • Reduce dependency on cyclical sectors • Expand activities in stable sectors
Shift in customer demand	• Good positioning and adequate scale to respond quickly to changing customer demand • Improvement programme increases proximity to customers to allow better anticipation of new customer requirements • Close scrutiny of customer conditions to ensure a desirable outcome for the customer and in terms of internal risk policy
Shortage of technically trained talent	• Employer branding policy that highlights our positive work culture and personal development opportunities • Competitive salaries and fringe benefits
Increasing regulatory burden	• Compliant with all relevant product and environmental requirements • Intensify collaboration with suppliers to improve product traceability and the sustainability of purchased materials
Price competition	• Focus on *life cycle management* and *optimal cost of technology* • Group-wide strategy aimed at climbing to a higher level in the value chain

Operational risks	
Supply chain complexity	• Standardised materials procurement • Reduced number of suppliers • Close monitoring of timely deliveries • Spread of risks and costs throughout the logistics chain • Improve logistics agreements and models
ICT systems	• Internal and external backup systems • Phased implementation of new systems and changes based on previous lessons learned
Production continuity	• Invest in and monitor safety and security at production facilities

Financial risks	
Liquidity and solvency	• Conservative and solid financing policy • Tight control of cash flow • Favourable supplier finance agreements to achieve faster payment • Extended group facility in place until early 2022
Accounts receivable	• Careful assessment and minimisation of credit risk when setting up new customer accounts • Credit insurance • Close monitoring of debtors
Inventories	• Monitor and manage inventories through better logistics contracts • Introduce system for unique item coding

Risks and risk management

Neways is an internationally operating listed company that is focused on longterm value creation. The EMS market in which we operate is characterised by a complex logistics chain and a growing regulatory burden in the area of quality and sustainability. The OEMs in this sector are directly exposed to geopolitical uncertainties; however, the unpredictable outcome of the trade war and the renewed focus on protectionist measures have an indirect effect on Neways as well. Price competition, volatile customer demand and a shortage of technically skilled workers are also areas of ongoing concern.

Risk control mechanism

We use internal risk management and control systems to monitor risks that are relevant to the organisation at strategic, tactical and operational level. In 2018, we redesigned our management and control systems based on COSO-ERM[1]. In 2019, we rolled out the result to the operating companies. The control system focuses primarily on operational and financial control, but an analysis has also been carried out at strategic level. The business risks have been re-prioritised and analysed.
Six key risks have been identified as a result. We have used this information to review which measures and systems we already have in place in this area and determine which additional measures are required (for details, see page 46). The Board of Directors is responsible for all aspects of risk management as this is integral to Group management and control. Risk management effectiveness is regularly discussed with the Supervisory Board.

In recent years, we have worked at a structural level to strengthen our internal risk management and control systems. The effectiveness of the measures associated with General IT Controls has increased significantly. In view of the growth achieved by the organisation, we consider it necessary to further improve the closing process in terms of efficiency and documentation. We intend to achieve this through extra training and by attracting additional expertise.

The separation of functional controls tasks is also assured within the internal risk management system. Each operating company monitors and manages risks, and the holding company acts to ensure central coordination, management and control. Various employees at the holding company and in the operating companies are individually responsible for identifying and managing risks.

The Corporate Head of Business Improvement and Internal Control is responsible for the internal audit function and reports directly to the CFO in that respect. The internal audit function monitors compliance with legislation and regulations, assesses the quality of risk management systems and initiates improvements in business processes.

The internal risk management and control systems can neither completely eliminate all risks, nor offer absolute assurance that material misstatements, financial loss, fraud or violations of legislation and regulations can be prevented.

Neways is currently taking steps to implement a single ERP system for all operating companies. In 2020, work will start on building the digital environment and rolling out the systems. All business processes are designed to be as similar as possible for the operating companies.

Each operating company reports revenue and order intake figures on a daily basis. Each month, a consolidated statement of financial position and statement of profit or loss are prepared with a summary of the main financial figures, including a cash flow statement and operational performance indicators. This package also includes forecasts relating to profit/loss, cash flow and the balance sheet. These consolidated monthly reports are also made available to the Supervisory Board. Members of the Board of Directors visit all the operating companies every two months in order to discuss the main operational aspects and areas requiring improvement.

Market and commercial risks

Volatility in customer demand

Customers and end-customers are sensitive to macroeconomic trends. As a result, the manufacturing industry is subject to cyclical fluctuations that affect the introduction of new products and the timing of orders awarded to outsourcing partners. A prolonged downturn in economic activity, or fluctuations of a more short-term nature, can lead to

[1] *COSO Enterprise Risk Management is a widely used framework for assessing and setting up risk management.*

the postponement of orders and schedule adjustments that have a negative effect on our capacity utilisation and financial performance.

In the case of existing customers, we discuss and agree changes to the conditions. In the case of new customers, we have prepared checklists identifying the critical points that need to be addressed before entering into a contractual agreement. We see that customers offer some leeway for agreeing better conditions. This new approach also results in more effective intake filtering to ensure that Neways always shares operational risks with the customer.

Neways is active in different market sectors and benefits from a balanced spread of its activities across its choice of markets. This reduces sensitivity to sharp fluctuations in demand, particularly in the semiconductor sector. Orders and revenue show a more stable trend thanks to this spread.
In 2019, this was one of the factors that helped us maintain revenue growth despite the decline in demand. However, reducing sensitivity to cyclical fluctuations and short-term schedule changes by customers continues to be an area of focus. Expansion of the activities in more stable market sectors, such as medical and agriculture, is helping us achieve better coordination and greater flexibility in the overall organisation of our workforce.

Shift in customer demand
Due to the growing need for customisation, the demands that OEMs place on their outsourcing partners are becoming more challenging. There is a risk that Neways will be unable to respond adequately to that shift, and possibly lose important customers and partnerships as a result.

Neways invests in familiarising itself with its customers' business in order to identify technological developments that are relevant to them. We scale up and provide the organisational capacity needed to satisfy this customer demand.

Increasing regulatory burden
Legislation and regulations on quality and safety, sustainability and transparency are becoming more demanding. Environmental requirements are becoming stricter. Ensuring adequate knowledge in this area throughout the organisation and a good compliance function are essential in the light of these trends. Not complying with legislation and regulations may lead to reputational damage, fines and lost customers.

In 2019, Neways looked for external parties capable of assisting in it correctly applying/implementing Environment, Safety & Health (ESH) legislation. The most suitable contractor was selected from the resulting short-list of candidates early in 2020. The roll-out to the operating companies will take place in the first half of 2020.

Neways complies with all relevant product and environmental requirements (REACH, RoHS, ISO 14001 and legislation and regulations relating to export and conflict minerals) and constantly focuses on identifying areas requiring improvement and taking appropriate action. We are considering what implications new European regulations on conflict minerals will have for business operations.

This new legislation comes into force in 2021 and prohibits the export of conflict minerals to EU member states. We are working together with our first-tier and second-tier suppliers to improve the traceability and sustainability of purchased materials: that information will allow us to identify their origin and report accordingly.

Price competition
The EMS market is traditionally a manufacturing sector that is subject to high price competition. There is continuous downward price pressure on electronic applications due to globalisation and technological advancements. The pressure on our margins may increase as a result.

By consciously choosing customers where Neways, as a long-term partner, can add value in the area of *technology and life cycle management*, we effectively shift the focus away from price and compete mainly on reliability and quality. By specifically focusing on a sustainable partnership with customers and acting to achieve optimal total cost of ownership, Neways is becoming less sensitive to short-term price pressure. Our ability to contribute ideas, co-develop and innovate with our customer at an early stage in new product introductions is essential to achieving this.

Operational risks

Supply chain complexity

The EMS market is characterised by a supply chain where customer demand for box build assemblies is leading to increasing complexity. Purchasing materials for assemblies of this type is often considerably more complex than purchasing electronic components and subsystems. As a co-developer for customers, Neways plays an increasingly more prominent role in the supply chain and as a logistics partner for our customers. As a supply chain manager and development partner Neways offers added value: the most suitable materials and components need to be chosen with the future in mind right from the development stage. Insufficient transparency in the supply chain can lead to quality issues and delivery problems that disrupt schedules and production processes.

In some manufacturing sectors, like automotive for example, we also see the trend towards reducing complexity in the supply chain through disintermediation (i.e. cutting out the middleman). In the case of suppliers of more standard components, we make better agreements about the party that holds the inventory, ensuring a fairer spread of risk between Neways and the suppliers. In 2019, various initiatives were launched to achieve better logistics agreements regarding the party that holds inventory. There is still significant room for improvement in our risk profile in this area in the years to come.

Neways continuously monitors the risks associated with late deliveries by product group and by supplier. All activities in the procurement and production process are only initiated once a customer has placed an order or signed a contract. In the event of a cancellation, the associated costs such as the costs of holding inventory of purchased components are spread across the logistics chain.
This approach minimises the financial risks for Neways.

Availability of components

As a result of the growing but strongly fluctuating demand for electronics, there are regular market shortages of the components that Neways uses in its products. Major technological innovations, such as the introduction of 5G networks all over the world, as well as global political developments like international trade conflicts, have a strong impact on both component demand and the expansion of global production capacity. In periods of scarcity, the delivery times for certain components become longer and other components can no longer be supplied. The lack of these components can lead to deadlines not being met and, consequently, Neways not being able to satisfy customer demand.

To mitigate the risk associated with shortages of certain components, Neways is taking action to strategically strengthen the supply chain. This involves long-term partnerships with First-tier suppliers that are characterised by mutual dependency and intensive and regular consultation. As a result, we gain a better understanding of our customers' future component needs *and* the available capacity of our suppliers. Both are essential requirements if we are to forecast production capacity in good time and identify issues at an early stage.

In addition, we use a specific approach for each item category; for instance, Neways is able to use its technological and logistical expertise to offer alternative solutions for generic electronic components, and there are several potential First-tier suppliers in the chain for customer-specific components.

Shortage of engineering skills

The shortage of engineers and technical personnel on the labour market can have a negative impact on strategy implementation and production and development capacity. Highly qualified technical and specialist staff are particularly difficult to find.

Neways actively engages in employer branding and positions itself as an attractive employer that offers talented people with a technical background a personalised working environment where promising young employees are offered international opportunities and encouraged to develop and pursue a career in the high tech sector. Opportunities are also offered to work placement/final-year students with the aim of offering them employment on completion of their studies if both parties see a good match. We also focus on an older target group when positions require professional experience, leading to a good mix of older and younger employees.

Catastrophic failure of business systems
In 2019, we drew up the Business Continuity Plan as a template for how to act in the event of a catastrophic failure of business systems.
This plan is currently being tested at one of the operating companies and the final version will be rolled out to the other operating companies.

A failing production or ICT system, or the implementation of a new system that does not meet the requirements and wishes of the users may lead to disruption of the process in question, general business operations and internal and external reporting capabilities, thereby leading to a situation where Neways may not be able to meet its obligations towards its stakeholders. Neways has a combination of internal and external backup systems that minimise the risk of a failing production line or ICT system. In addition, continuous improvements are being made to further strengthen the stability of our systems and data and the way in which we protect them, both in relation to Neways and our customers. These improvements are made based on Group-wide risk analyses performed by Neways.

Safety at work
Major failures and other unforeseen circumstances in the production facilities not only potentially endanger production continuity, they may also put the safety of individual employees at risk.

Neways invests continuously in the safety of its production facilities by setting up preventive control measures for work procedures and introducing protocols to prevent serious incidents and accidents on the shop floor. Inspections are regularly carried out at our facilities to look at safety aspects and working conditions.

Financial risks

Liquidity and solvency
In the event of insufficient liquidity and/or solvency, there is a chance that creditors will demand payment of their claims against Neways. It is expected that OEMs will increasingly ask Neways, as a long-term partner, to invest a larger share in development processes.

Interest rates are also expected to remain low in the coming period. However, *supplier finance* arrangements do potentially expose Neways to additional risk if interest rates rise again.

We apply a conservative and solid financing policy, coupled with strong cash flow management. Supplier finance arrangements have been agreed in a number of long-term partnerships. As a result, we also receive payment faster on average. This allows Neways to benefit from favourable conditions offered by suppliers for fast payment. At the beginning of 2019, the Group facility was expanded and prolonged until the start of 2022. This facility provides adequate financial resources, resulting in a limited liquidity risk.

Payment default
If customers of Neways failed to meet their payment obligations, financial damage may arise. When entering into a relationship with a new customer, we carefully assess this risk and take action to minimise it. In addition, Neways has taken out credit insurance.

Uncommitted inventory
ATP (available to promise) inventory, i.e. the on-hand inventory of raw materials and consumables not covered by orders or contracts, constitutes a risk for Neways and can increase working capital requirements and put pressure on cash flow and margins.

Neways focuses on constantly monitoring and controlling the inventories together with its suppliers in the supply chain. The supply chain management initiatives are expected to contribute to a permanent reduction in inventory levels.

ATP inventory is monitored monthly and reported by the management teams at the operating companies to allow centralised action that targets reduction of this uncommitted inventory.

In control statement

Based on the above, the Board of Directors declares that, to the best of its knowledge, the risk management and control systems provide a reasonable degree of assurance that the management reports do not contain any material misstatements and that the risk management and control systems operated effectively in 2019. The Board of Directors also declares that, to the best of its knowledge and in the light of the current state of affairs, it is justified in drawing up the financial statements based on the assumption that Neways can continue trading as a going concern. There are no indications that the continuity of Neways will be adversely affected in the twelve months following the publication of this annual report.

Board of Directors' statement of responsibilities

pursuant to Section 5:25c of the Financial Supervision Act (*Wet Financieel Toezicht/Wft*).

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

The 2019 financial statements give a true and fair view of the assets, liabilities and financial position at 31 December 2019 of Neways Electronics International N.V. and the Group companies included in the consolidation, and of the results for the year then ended;

The 2019 annual report gives a true and fair view of the position at 31 December 2019 of Neways Electronics International N.V. and its affiliated Group companies included in the consolidation and of the developments during the year then ended as presented in the consolidated financial statements, and describes the material risks facing the company.

Son, 4 March 2020

Eric Stodel - CEO
Paul de Koning - CFO
Adrie van Bragt - COO

Shares in Neways

The shares in Neways are listed on the Euronext Amsterdam stock exchange and have been included in the Tech40 Index since 2016. The Tech40 is made up of a total of 320 tech companies listed as small or mid-cap companies on all Euronext markets. The Tech40 Index is compiled annually. NIBC Markets N.V. acted as the liquidity provider in 2019.

Neways' share structure

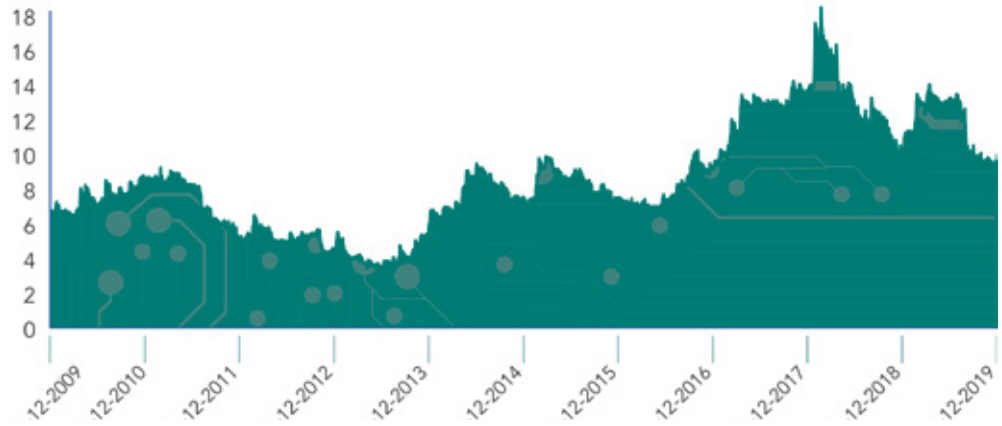
Neways' share capital consists solely of ordinary shares with a nominal value of € 0.50 per share. On balance, the issued share capital at the end of 2019 consisted of 12,149,534 shares. Employee share options were exercised and convertible bonds converted to shares during 2019, increasing the share capital by 191,910 shares.

	2019	2018
Year-end	12,149,534	11,957,624
Weighted average	12,097,017	11,854,170

Price movement and key figures

	2019	2018
Highest price	€ 14.00 (11 April)	€ 18.60 (20 February)
Lowest price	€ 9.30 (31 October)	€ 9.88 (18 December)
Closing price	€ 9.96	€ 10.10
Basic earnings per share	€ 0.70	€ 1.20
Dividend	€ 0.28	€ 0.48
Price/earnings ratio at financial year-end	14.2	8.4
Market capitalisation at financial year-end	€ 121,009,359	€ 120,772,002

Price movement (in €)



Shareholders

Pursuant to the Disclosure of Major Holdings in Listed Companies Act *(Wet Melding Zeggenschap/WMZ)*, interests of 3% or more in Neways' issued capital must be notified to the Dutch Authority for the Financial Markets (AFM). At year-end 2019, the following shareholders were known to have an interest of at least 3%.

Shareholder	%	Date of most recent disclosure
VDL Beleggingen B.V.	27.4%	17/12/2010
Stg. Administratiekantoor Tymen	18.6%	08/06/2009
Menor Investments B.V.	7.5%	09/01/2009
Teslin Participaties Coöperatief U.A.	7.1%	28/11/2017
OtterBrabant Beheer B.V.	5.5%	01/11/2006
Add Value Fund N.V.	5.2%	06/07/2018

The majority of the shares in issue are held by Dutch institutional investors, family offices and private investors.

As at 31 December 2019, the members of the Board of Directors held 0.2% of the total number of Neways shares in issue.

Dividend policy

Neways aims to pay a dividend of 40% of the net profit. Dividend may only be distributed if certain conditions are met. One of these conditions is that the solvency (guaranteed capital adjusted for deferred tax assets and intangible fixed assets/total equity) must be at least 35%.
Based on the earnings per share of € 0.70 realised in 2019, it is proposed that the General Meeting of Shareholders distribute a cash dividend of € 0.28 for financial year 2019. This represents a payout ratio of 40%.

Share options and performance shares

Neways applies a remuneration policy that aims to maximise long-term value creation for shareholders. The General Meeting of Shareholders of 18 April 2017 approved and adopted the current remuneration policy. This policy makes provision for a Performance Share Plan under which the number of long-term performance shares that will vest depends on achievement of predetermined profit margin targets over a three-year performance period.

The Supervisory Board decides each year whether or not to grant performance shares to the members of the Board of Directors and a number of other key company officers. This resolution is submitted to the General Meeting of Shareholders for adoption. Full details of the remuneration policy are available for reference on the corporate website.

The option scheme has been phased out in stages; options were granted to the members of the Board of Directors and other key company officers for the last time in 2017. When deciding whether or not to grant options, consideration is given to both the targets that have been achieved and targets that have yet to be achieved for the operating company, and also the individual performance of the key company officer in question. The term of the options in issue is at least three years and the options entitle the holder to one ordinary Neways share. Neways' share option policy does not include the purchase of shares to counteract dilution when options are exercised.

Members of the Board of Directors and other company officers exercised 62,500 options during the year under review. More information on the options and performance shares awarded to the Board of Directors in 2019 is also provided in note 16 to the financial statements.

Important dates

16 April 2020	General Meeting of Shareholders
16 April 2020	Publication of the interim trading report
20 April 2020	Ex-dividend listing
4 May 2020	Dividend available for payment
27 August 2020	Publication of the half-year results
17 September 2020	Open Day for shareholders
29 October 2020	Publication of the interim trading report

Prevention of misuse of insider information

The existing regulations on how price-sensitive information is to be handled internally and externally, as set out in the Model Code, are periodically reviewed by the company and, if necessary, tightened up by issuing further internal guidelines. The regulations relate to the Supervisory Board and the Board of Directors, as well as to the management layer below the Board of Directors and all central employees who are privy to price-sensitive information. Neways employs a compliance officer who supervises and ensures proper compliance with the regulations.

Investor relations

Neways attaches great value to transparency, and its investor relations policy calls for regular communication with shareholders and other financial stakeholders.
In addition to publication of the annual report, the half-yearly report and the interim trading reports, the Supervisory Board and the Board of Directors initiate contact with the shareholders at various times during the year.
The most important contact opportunity is the Annual General Meeting of Shareholders. In addition, Neways organises an annual shareholders' Open Day at one of the operating companies. The Open Day is an opportunity for exchanging views with members of the management team and finding out more about a specific operating company.
More information about shares in Neways is available on newayselectronics.com.
You can also contact us as follows:
E: info@newayselectronics.com
T: +31 (0)40 267 92 05

Supervisory Board
From left to right:
Peter van Bommel,
Henk Scheepers,
René Penning de Vries.

In fulfilment of our duties as the Supervisory Board, we supervised implementation of Neways' strategy and actions to create long-term value in 2019. We carry out these supervisory tasks in line with the relevant legislation and the company's articles of association. In this capacity, all major decisions of the Board of Directors were submitted to us for approval. In addition, the change of CEO has taken place on 1 January 2020 and was an important point that required our attention in 2019.
In the opinion of the Supervisory Board, the requirements relating to independence of action, as specified in best practice provisions 2.1.7 to 2.1.9 inclusive of the Corporate Governance Code, have been satisfied.

Supervision and advice

For Neways, 2019 was characterised by two distinct trends. On the one hand, a number of positive steps have been taken with regard to implementation of the long-term strategy. On the other hand, events of the year also revealed that Neways is still too vulnerable as an organisation, and insufficiently able to anticipate changes in levels of customer demand. Although revenue increased, excessive expense had to be incurred in order to deliver the orders, leading to a clear decline in financial performance.

For us as the Supervisory Board, internal process control, supply chain management and making the organisation more flexible were therefore the key topics of our discussions with the Board of Directors. Among other things, we focused on ways to achieve a more balanced distribution of risk in the supply chain. Adjustments to schedules still have a disproportionately high impact on Neways in specific cases. We discussed concrete actions for making better agreements with customers and suppliers, improving the QLTC processes and improving forecasting accuracy in relation to inventory planning and other areas.

The culture change process, collaboration with other Group companies and the discipline required to consistently implement the new working methods across the Group all require continuous attention. It is clear to us all, both the Supervisory Board and the Board of Directors, that internal process control and making the organisation more flexible will continue to be priorities in 2020.

New CEO

The company's CEO Huub van der Vrande transferred his duties to the new CEO Eric Stodel on 1 January 2020. We formally announced this development on 18 December 2019 during an Extraordinary General Meeting of Shareholders. Mr Stodel has been appointed for a term of four years. In our opinion, the Board of Directors in this new form has a good mix of knowledge and skills and will be capable of providing excellent leadership in the current phase and adequately implementing Neways' long-term strategy.

Composition of the Supervisory Board

There were no changes to the Supervisory Board in 2019. The proposal to reappoint Peter van Bommel for a second four-year term was adopted by the General Meeting of Shareholders on 11 April 2019.

After proper consultation, René Penning de Vries decided to step down from his position as a member of the Supervisory Board after the General Meeting of Shareholders on 16 April 2020. The Supervisory Board understands and respects his decision and wishes to thank him for the substantial contribution he has made to us as a Board and to Neways as a company during the past seven years.

The Supervisory Board has taken action to find a replacement for René Penning de Vries and also appoint a fourth member of the Supervisory Board. Karin de Jong (CFO of Fagron N.V.) and Hans Büthker (CEO of GKN Aerospace) will be nominated for a term of four years. Karin de Jong has extensive international experience in corporate finance, including fiscal affairs, due diligence and acquisitions. In her current position she is CFO at Fagron N.V., a company active in the pharmaceutical sector. Hans Büthker is an experienced executive and supervisory board member with extensive experience and expertise in strategy development, innovation, operations and IT. He is currently CEO at GKN Aerospace and has held various senior management positions at with Stork, Fokker and other companies in the semiconductor and aerospace industries. We value Hans and Karin's extensive business expertise, management experience at senior level, and understanding of the sector and believe that they will be valuable additions to the Supervisory Board of Neways.

In order to safeguard supervisory and executive continuity within Neways, Henk Scheepers will be nominated for a third two-year term as a supervisory director and will continue to Chairman the Supervisory Board.

Neways does not yet comply with the guideline regarding a balanced male/female ratio within the Board of Directors and the Supervisory Board. Nevertheless, as the Supervisory Board, we continue to give consideration to this aspect when searching for new, suitable candidates for board positions and wholeheartedly support greater diversity within Neways as a Group.

Remuneration

In response to new legislation based on the EU Shareholder Rights Directive II (SRD II), the Supervisory Board, together with an external consultant, reviewed the existing remuneration policy and amended it where necessary. The main legislative changes are the following:

- A new remuneration policy must be submitted to the General Meeting of Shareholders at least every four years (the current remuneration policy has a validity of five years).
- At least three quarters of the votes cast must be in favour in order to adopt a resolution regarding the remuneration policy.
- The Works Council has a right to render an advisory opinion with regard to the remuneration policy.
- The remuneration policy explains how consideration is given to (i) the identity, mission and values of the company, (ii) wage ratios within the company, and (iii) public support.

Because the principle of a four-year term has been used for the first time in relation to an appointment to the Board of Directors, this requires a (non-material) adjustment to the current remuneration policy for the Board of Directors. The new remuneration policy has been discussed with the Works Council and will be submitted to the forthcoming General Meeting of Shareholders for approval and adoption. The policy that was adopted in 2017 and the new remuneration policy are both available for reference on the corporate website (www.newayselectronics.com).

The new CEO's remuneration has been determined in line with the updated policy and consists of a basic salary combined with long-term and short-term variable remuneration components that depend on the extent to which he achieves his objectives.
The remuneration of the CFO and COO positions fall within the scope of the new remuneration policy; however, the four-year appointment term does not apply to the current members of the Board of Directors.

In line with the new legislation and SRD II, we have also prepared a remuneration policy for the Supervisory Board in collaboration with PwC. This policy will also be submitted to the General Meeting of Shareholders for approval and adoption and is available for reference on the corporate website (www.newayselectronics.com).

The full remuneration report for 2019 is available for reference on the corporate website (www.newayselectronics.com). More details regarding the remuneration of the Board of Directors and Supervisory Board are also provided in the financial statements on pages 94 to page 96 of this report. The report will be submitted for an advisory opinion to the forthcoming General Meeting of Shareholders.

Plenary meetings and consultation

In 2019, the complete Supervisory Board attended meetings with the Board of Directors on five occasions. All recurring agenda items, including strategy and the progress made in this area, the budgets and financial performance, the working capital and inventories in particular, management development, risk management and internal controls, and the progress made in relation to the sustainability aspects of business operations, were discussed during these meetings.

The external auditor KPMG attended one of these plenary meetings with the Board of Directors. In addition, consultation also took place with the external auditor on occasions when the Board of Directors was not present. These meetings did not reveal any issues that required immediate attention or action.

The Supervisory Board also met on several occasions without the Board of Directors to discuss the recruitment procedure for the new CEO, the composition of the Supervisory Board and the remuneration policy. In addition, the members of the Supervisory Board also participated in interviews with several candidates for the position of CEO.
In 2019, the Chairman of the Supervisory Board held two plenary meetings with Neways' Central Works Council (CWC) and there were also several informal meetings between members of the CWC and the supervisory directors. The main issues considered during those meetings were the utilisation and flexibilisation of the workforce capacity within Neways.

Contact with the shareholders

As supervisory directors, we attach great importance to transparency and open communication with shareholders. The Board of Directors has the most contact with shareholders; however, members of the Supervisory Board also met the shareholders at various times in 2019. The most important occasions were the General Meeting of Shareholders in April, the Open Day for investors that was held in September and coincided with the festivities celebrating Neways' 50th anniversary, and the Extraordinary General Meeting of Shareholders in December in connection with the appointment of the new CEO.

Adoption of the 2019 financial statements

The 2019 financial statements were submitted by the Board of Directors to the Supervisory Board and discussed in exhaustive detail with KPMG as Neways' independent auditor. KPMG has audited the financial statements and issued an unqualified opinion. This opinion has been included in this annual report in the Other Information section (page 108).

The Supervisory Board has determined that the Report of the Board of Directors on 2019 provides an accurate picture of the company's financial position and profitability. All the members of the Supervisory Board have signed the 2019 financial statements.

The General Meeting of Shareholders will be advised to approve and adopt the financial statements and grant discharge to the Board of Directors from liability for the policies it pursued and to the Supervisory Board for its supervisory activities during the past financial year.

Proposed dividend over 2019

In 2019, Neways achieved a net profit of € 8.5 million. The Board of Directors proposes – with the support of the Supervisory Board – distribution of a dividend of € 0.28 per share for financial year 2019, to be paid in cash. As a result, the dividend payable for 2019 equates to 40% of the net profit, in line with the dividend policy.

Excellent performance by the Board of Directors

Neways celebrated its 50th anniversary in 2019, a milestone that we festively commemorated together with everybody who works for Neways and during which the loyalty and commitment of many of our employees was clearly demonstrated.

Even though our results for the year lagged behind previous years, everyone worked extremely hard in order to offer customers the best possible service. It was also a year in which new steps were taken to further improve collaboration and the processes that enable this within the Group, and we will continue these programmes in 2020.

We are convinced that these changes in the way in which we work – changes that focus on transparency, teamwork and responsibility – will be beneficial for the culture within Neways, a culture in which we keep our promises to each other and proactively exchange knowledge. All these measures contribute to a more constructive, professional and pleasant working atmosphere.

We wish to express our appreciation of how the members of the Board of Directors performed. In particular, we would like to thank Huub van der Vrande for the verve and enthusiasm with which he has led the company for more than sixteen years. Without his dedication and entrepreneurial skills, Neways would not have been able to become the international EMS life cycle partner with a revenue of more than € 500 million that it is today. We wish him every success in his new role as special projects adviser to the Board of Directors.

We would also like to express our warm and heartfelt gratitude to all the employees who once again worked so hard during the past year to make Neways the 'EMS-life cycle partner of choice'.

Son, 4 March 2020

Supervisory Board
Henk Scheepers (Chairman)
René Penning de Vries (Deputy Chairman)
Peter van Bommel

Consolidated statement of financial position

Amounts x € 1,000 as at 31 December	Note	2019	2018*
Fixed assets			
Property, plant and equipment			
Buildings and land	5	47,566	14,984
Plant and equipment	5	29,880	21,717
Assets under construction	5	847	3,042
		78,293	**39,743**
Intangible fixed assets			
Software	6	4,140	5,155
Goodwill	6	2,754	2,754
Customer relationships	6	1,646	2,328
		8,540	**10,237**
Financial fixed assets			
Equity-accounted investees		5	5
Deferred tax assets	7	3,461	3,820
		3,466	**3,825**
Total fixed assets		**90,299**	**53,805**

Amounts x € 1,000 as at 31 December	Note	2019	2018*
Current assets			
Inventories			
Raw materials and consumables	8	70,410	81,368
Work in progress	8	28,197	30,570
Finished goods	8	2,036	3,193
		100,643	**115,131**
Receivables			
Contract assets		13,567	12,966
Trade and other receivables	9	70,903	62,053
		84,470	**75,019**
Cash and cash equivalents	10	**2,240**	**1,066**
Total current assets		**187,353**	**191,216**
Total assets		**277,652**	**245,021**

* The Group initially adopted IFRS 16 with effect from 1 January 2019, using the modified retrospective approach, which means that the cumulative effect of the initial adoption of IFRS 16 has been recognised as an adjustment to the opening balance sheet, with no restatement of comparative information.

Notes 1 to 26 are an integral part of these consolidated financial statements.

Click here for the vertical presentation of the consolidated statement of financial position.

Amounts x € 1,000 as at 31 December	Note	2019	2018*
Equity			
Issued and paid-in capital	11	6,075	5,979
Share premium		46,313	44,326
Retained earnings		53,000	50,669
Currency translation reserve	11	701	658
Equity attributable to holders of equity instruments in the parent company		**106,089**	**101,632**
Non-current liabilities			
Interest-bearing borrowings	13	29,519	0
Provisions	14	575	692
Pension and jubilee provisions	15	5,426	4,959
Deferred tax liabilities	7	1,346	1,417
		36,866	**7,068**

Amounts x € 1,000 as at 31 December	Note	2019	2018*
Current liabilities			
Bank overdrafts	13	36,545	41,817
Interest-bearing borrowings	13	5,379	1,130
Trade and other payables	17	82,860	82,833
Taxes and social security premiums		7,224	6,621
Corporate income tax		1,634	2,107
Provisions	14	1,055	1,813
		134,697	**136,321**
Total equity and liabilities		**277,652**	**245,021**

* The Group initially adopted IFRS 16 with effect from 1 January 2019, using the modified retrospective approach, which means that the cumulative effect of the initial adoption of IFRS 16 has been recognised as an adjustment to the opening balance sheet, with no restatement of comparative information.

Notes 1 to 26 are an integral part of these consolidated financial statements.

Click here for the vertical presentation of the consolidated statement of financial position.

Consolidated statement of profit or loss and comprehensive income

Amounts x € 1,000	Note	2019	2018
Revenue from sale of goods		533,454	506,819
Movements in work in progress and finished products		0	–723
Raw materials and consumables		–336,812	–310,906
Personnel costs	18	–138,507	–133,962
Depreciation and amortisation	19	–14,455	–9,198
Impairment loss on trade receivables and contract assets	9	–24	–291
Other expenses		–28,508	–30,697
Operating result		**15,148**	**21,042**
Finance costs	20	–2,938	–1,967
Profit before tax		**12,210**	**19,075**
Tax income/(expense)	7	–3,692	–4,644
Net profit		**8,518**	**14,431**
Other comprehensive income			
To be reclassified to profit or loss in subsequent periods:			
Foreign exchange translation differences for non-Dutch participations		43	48

Amounts x € 1,000	Note	2019	2018
Total other comprehensive income to be reclassified to profit or loss in following periods		**43**	**48**
Items not to be reclassified to profit or loss in subsequent periods:			
Revaluation of the defined-benefit pension obligation	15	–532	–23
Related tax	7	160	7
Total		–372	–16
Total other comprehensive income not to be reclassified to profit or loss in following periods		**–372**	**–16**
Other comprehensive income for the period, net of tax		**–329**	**32**
Total comprehensive income for the period, net of tax		**8,189**	**14,463**
Earnings per share (in €)	21		
- Basic earnings per share		0.70	1.22
- Diluted earnings per share		0.70	1.18

Notes 1 to 26 are an integral part of these consolidated financial statements.

Click here for the vertical presentation of the consolidated statement of profit or loss and comprehensive income.

Consolidated cash flow statement

Amounts x € 1,000	Note	2019	2018
Operating activities			
Profit before tax		12,210	19,075
Adjusted for:			
Depreciation of Property, Plant and Equipment	5	12,645	7,364
Amortisation of Intangible Fixed Assets	6	1,810	1,834
Costs of employee options granded	16	44	69
Costs of employee performance shares awarded	16	435	236
Finance costs	20	2,938	1,967
Movements in provisions and pension obligations		–1,001	–484
Movements in working capital*		6,729	–17,275
		35,810	**12,786**
Other changes:			
Interest paid		–2,649	–1,918
Corporate income tax paid		–3,717	–3,299
Cash flow from operating activities		**29,444**	**7,569**
Investing activities			
Payments to acquire intangible assets	6	–113	–213
Payments to acquire property, plant and equipment	5	–12,888	–11,870
Cash flow from investing activities		**–13,001**	**–12,083**

Amounts x € 1,000	Note	2019	2018
Financing activities			
Repayments of interest-bearing borrowings	13	–44	–361
Payments pursuant to leases		–4,808	0
Increase/ (decrease) in bank overdrafts	13	–5,272	8,873
Dividend paid to holders of ordinary shares	12	–5,815	–4,184
Proceeds from exercise of options		504	130
Cash flow from financing activities		**–15,435**	**4,458**
Change in cash and cash equivalents		**1,008**	**–56**
Net currency translation difference		166	81
Cash and cash equivalents as at 1 January		1,066	1,041
Cash and cash equivalents as at 31 December		**2,240**	**1,066**
* **Movements in working capital**			
Inventories		14,488	–26,417
Contract assets		–601	0
Trade and other receivables		–8,850	–8,767
Trade and other payables		1,089	17,112
Taxes and social security premiums		603	797
		6,729	**–17,275**

Notes 1 to 26 are an integral part of these consolidated financial statements.

Click here for the vertical presentation of the consolidated cash flow statement.

Consolidated statement of changes in equity

Amounts x € 1,000	Note	Issued and paid-in capital	Share premium	Retained earnings	Currency translation reserve	Total equity*
Balance as at 1 January 2018		**5,741**	**40,312**	**38,385**	**610**	**85,048**
Restatement attributable to initial application of IFRS 15				2,053		2,053
Adjusted balance as at 1 January 2018		**5,741**	**40,312**	**40,438**	**610**	**87,101**
Profit for the financial year				14,431		14,431
Other comprehensive income				–16	48	32
Total comprehensive income for the period		0	0	14,415	48	14,463
Exercise of options	16	9	121			130
Issue of share options			69			69
Award of performance shares			236			236
Issue of shares		229	3,671			3,900
Write-down on participations			–83			–83
Dividends	12			–4,184		–4,184
Total transactions with holders of shares in the parent company		238	4,014	–4,184	0	68
Balance as at 31 December 2018		**5,979**	**44,326**	**50,669**	**658**	**101,632**
Profit for the financial year				8,518		8,518
Other comprehensive income				–372	43	–329
Total comprehensive income for the period		0	0	8,146	43	8,189
Exercise of options	16	31	473			504
Issue of share options			44			44
Award of performance shares			435			435
Issue of shares		65	1,035			1,100
Dividends	12			–5,815		–5,815
Total transactions with holders of shares in the parent company		96	1,987	–5,815	0	–3,732
Balance as at 31 December 2019		**6,075**	**46,313**	**53,000**	**701**	**106,089**

* The Group initially adopted IFRS 16 with effect from 1 January 2019, using the modified retrospective approach, which means that the cumulative effect of the initial adoption of IFRS 16 has been recognised as an adjustment to the opening balance sheet, with no restatement of comparative information.

Notes 1 to 26 are an integral part of these consolidated financial statements.

Click here for the vertical presentation of the consolidated statement of changes in equity.

Notes to the consolidated financial statements

1. GENERAL

Reporting entity and relationship with parent company

The consolidated financial statements of Neways Electronics International N.V. as at 31 December 2019 will be presented for adoption by the General Meeting of Shareholders to be held on 16 April 2020. Neways Electronics International N.V. is a company that is incorporated and domiciled in the Netherlands and its shares are publicly traded on the Euronext Amsterdam stock exchange (symbol: NEWAY). The company has its registered office in Eindhoven and its actual head office is located in Son. The Group consists of Neways Electronics International N.V. and its subsidiaries. The Group is an international one-stop provider of advanced integrated electronic components, assemblies, and systems for the industrial electronics sector.

Reporting period

These financial statements relate to the year 2019, which ended on the balance sheet date of 31 December 2019.

Going concern

Neways Electronics International N.V. has not identified any material uncertainty that might give rise to serious doubts about the entity's ability to continue its operating activities on a going-concern basis. These financial statements are accordingly prepared on the basis of the going-concern assumption.

Company financial statements

These financial statements have been prepared in accordance with Part 9, Book 2 of the Dutch Civil Code, using the accounting principles adopted by the European Union and applied in the consolidated financial statements. Correct interpretation of these statutory financial statements requires the consolidated financial statements of the Company to be read in conjunction with the company financial statements, as set out on pages 101 to 107.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of preparation

Statement of compliance

The consolidated financial statements of Neways Electronics International N.V. and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union and as in effect at the start of the financial year, and in accordance with Book 2, Section 362(9) of the Dutch Civil Code. These are the first financial statements of the Group in which IFRS 16 Leases has been applied. Changes in key accounting principles are described in the notes under point 2.2.

These consolidated financial statements were approved for publication by the Supervisory Board on 4 March 2020.

Accounting principles

The consolidated financial statements have been prepared based on historical cost. The consolidated financial statements are presented in euros.

Consolidation principles

The Group has consistently applied the following financial reporting principles to all periods presented in these consolidated financial statements, except as stated in 'Changes in key accounting principles' under note 2.2. The consolidated financial statements include the financial data of Neways Electronics International N.V. and its subsidiaries as at 31 December. This data has been processed in accordance with the full consolidation method based on uniform accounting principles. Adjustments have been made to bring any differences in valuation principles in line with those of the parent company. As a result, 100% of the financial data relating to the group companies has been included in the consolidation. All assets, liabilities, equity, income, expenses and cash flows arising from transactions within the group are completely eliminated during consolidation. Subsidiaries are businesses where Neways Electronics International N.V. exercises effective control. A new subsidiary is included in the consolidation from the time when effective control is acquired. Consolidation continues until effective control is lost. Changes in ownership interests in subsidiaries that do not lead to loss of control are presented in the accounts as equity transactions.
The Group changes the valuation of the remaining investment to the fair value from the

time when significant control is no longer exercised. The companies included in the consolidation are listed in note 22.

2.2. Summary of key accounting principles

Changes in key accounting principles

Except as stated below, the accounting policies that have been applied are the same as those used for the financial statements of the previous reporting year.

The Group applied IFRS 16 'Leases' for the first time from 1 January 2019. A number of other new standards and changes also came into effect from 1 January 2019, but had no material impact on the Group's financial position. IFRS 16 introduces a single model for recognising leases in lessees' balance sheets, thereby eliminating the difference between 'operating lease' and 'financial lease'. The consequence for the Group as a lessee is that the assets under nearly all leases are recognised on the balance sheet as a right-of-use asset and a lease liability has been created for the lease payments that are owed. The Group used the 'modified retrospective approach' at the time of adoption of IFRS 16, meaning that the cumulative effect of the initial adoption of IFRS 16 has been recognised in the opening balance sheet as at 1 January 2019, without adjustment to the comparative amounts in 2018. Details of the changes to the financial reporting principles are set out below.

I) Lease definition

Previously, the Group determined whether a contract was, or involved, a lease arrangement in accordance with IFRIC 4. As of 2019, the Group assesses whether a contract is, or involves, a lease arrangement based on the new lease definition. Under IFRS 16, a contract is, or involves, a lease if the contract provides for a right to use an identified asset during a specific period in exchange for consideration. At the beginning, or upon reassessment, of a contract that contains a lease component, the Group allocates the consideration under the contract to a lease and a non-lease component based on the relative stand-alone prices.

The Group is a lessee for various assets including buildings, production plant/equipment and vehicles. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the right-of-use asset and the lease liability for nearly all leases are recognised on the balance sheet. In the case of some leases of plant and equipment with a low asset value, the Group has decided not to recognise a right-of-use asset and a lease liability on the balance sheet. The lease payments related to these leases are recognised under other operating expenses on a linear basis during the term of the contract.

The Group recognises the right-of-use asset under 'property, plant and equipment', i.e. the same category under which it recognises the property, plant and equipment that it owns. The book value for the right-of-use asset is as follows:

Amounts x € 1,000	Effect of the adoption of IFRS 16 on 1 January 2019
Right-of-use asset – property, plant and equipment	34,447
Lease liabilities – interest-bearing borrowings	34,447

II) Financial reporting principles

The right-of-use asset and the lease liability are recognised from the commencement date of the lease. The right-of-use asset is initially recognised at cost and subsequently at cost less the accumulated depreciation and accumulated impairment, adjusted based on specific recalculations of the lease liability.

At the time of initial recognition, the lease liability is valued based on the present value of the lease payments that still have to be made, discounted at the interest rate implicit in the lease in question, or if this interest rate cannot be determined, the Group's incremental borrowing rate. In general, the Group uses the incremental borrowing rate as the discount rate. Following valuation at the time of initial recognition, the lease liability is increased by the interest expenses and reduced by the lease instalments paid on each subsequent occasion. Recalculation takes place when the future lease payments change due to a change in an index or rate, a change in the estimated payable amount in relation to a residual value guarantee, or, if applicable, a change in the expectation that a purchase option or renewal option will be exercised, or if it is expected that a termination option will be exercised.

The Group has exercised its own judgement when determining the lease term for some leases with renewal options. The estimation whether the Group will, with a reasonable degree of certainty, make use of such options has an effect on the lease term, which in turn significantly affects the amount of the lease liability and the right-of-use asset.

III) Transition to IFRS 16

Previously, leases for buildings and land were classified in accordance with IAS 17. Most of the leases run for a period of 10 to 12 years. Some leases include a renewal option for an additional lease period of 5 years at the end of the non-cancellable lease period. Most leases contain provisions for changes to the lease price based on indexation.

On the transition date, the lease liabilities relating to all leases classified in accordance with IAS 17 were calculated based on the present value of the remaining lease instalments, discounted at the Group's incremental borrowing rate as at 1 January 2019. The right-of-use asset is calculated based on an amount equal to the lease liabilities.

The Group has applied the following practical expedients when adopting IFRS 16:
Application of the exception allowing non-recognition of the right-of-use asset and lease liability on the balance sheet in the case of leases with a term of less than 12 months.
Application of the exception allowing non-recognition of the right-of-use asset and lease liability on the balance sheet in the case of leases for low-value assets.

When making the transition to IFRS 16, the Group decided to apply the practical solution for determining which transactions are in fact leases. As a result, the Group has only applied IFRS 16 to contracts that had previously been identified as leases. Contracts that were not classified as leases under IAS 17 and IFRIC 4 have not been reassessed to determine whether they are deemed to be a lease under IFRS 16.

When valuing lease liabilities that were previously classified as operating leases, the Group has discounted the lease payments at the incremental borrowing rate as at 1 January 2019. An interest rate of 1.5% was applied, with the exception of China, where an interest rate of 5% was used.

As a result of the initial application of IFRS 16 in relation to leases that were previously classified as operating leases, the Group recognised € 34,447,000 in lease liabilities under interest-bearing borrowings as at 1 January 2019, and € 34,898,000 as at 31 December 2019. As a result of the adoption of IFRS 16, the Group recognised depreciation and finance costs in the statement of profit or loss, rather than as operating lease costs. In 2019, € 5,148,000 in depreciation and € 613,000 in finance costs were recognised in relation to the leases.

The reconciliation between the operating lease liabilities as disclosed under IAS 17 in the consolidated financial statements of the Group as at 31 December 2018 and the lease liabilities recognised as at 1 January 2019 is as follows:

Amounts x € 1,000	1 January 2019
Operating lease liabilities as at 31 December 2018 as disclosed under IAS 17 in the consolidated financial statements of the Group	39,623
Discounted using the marginal interest rate as at 1 January 2019	–2,628
Practical expedient for leases with a lease term of less than 12 months	–229
Service components not included in accordance with the new IFRS 16 standard	–1,071
Variable indexation of the lease price not included in accordance with the new IFRS 16 standard	–212
Investment liability at the end of 2018	–897
Excessively high off-balance sheet commitments at the end of 2018	–139
Lease liabilities recognised as at 1 January 2019	34,447

Operational segments

The Group's long-term strategy is aimed at strengthening its position as a one-stop provider of customer-specific industrial and professional electronic components, assemblies and systems for the Electronic Manufacturing Services (EMS) market. Intensive collaboration and clear communication between the different Neways operating companies ensures that customers in this market are optimally served, with all customer contacts being channelled through a designated point of contact.
Neways' Western European operating companies play an important role in promoting the company's one-stop-provider strategy. These operating companies are close to their customers, both in terms of customer contact and geographically.
The operating companies in Eastern Europe and Asia focus primarily on producing high-volume, less complex and stable series with a view to achieving cost benefits for customers. This production is usually commissioned by sister companies in Western Europe.

Continuous improvement in the collaboration at all levels in the organisation is essential in order to operate in respect of customers as a homogeneous, integrated group of companies with a coherent quality policy, recognisable culture and a shared vision.

The Group's management takes decisions based on its own assessments and direct communication with all those involved. Financial management is based on consolidated information. Neways is therefore only active in one operating segment as defined in IFRS 8.

Of the total revenue of € 533.4 million in 2019 (2018: € 506.8 million), a single customer was responsible for a revenue of € 93.5 million (2018: € 101.7 million) and a second customer generated a revenue of € 42.4 million (2018: € 23.7 million). For a detailed breakdown of revenue per market sector and geographical segments, please refer to the report of the Board of Directors, as included in the financial statements

Consolidated cash flow statement

The consolidated cash flow statement has been prepared using the indirect method. Cash flows in foreign currencies are translated at the average foreign exchange rate. Foreign exchange differences relating to cash and cash equivalents are shown separately in the cash flow statement. Interest paid and income taxes are recognised under operational cash flows. The cash flow statement also takes into account effects ensuing from the sale and acquisition of group companies and participations included in the consolidated accounts for the first time.

Business combinations and goodwill

Business combinations are recognised based on the acquisition method, which involves recognising the identifiable assets and the liabilities and contingent liabilities assumed at fair value, including those not previously recognised by the acquiree. Costs (excluding finance costs) that relate to the acquisition are charged directly to the statement of profit or loss. Finance costs incurred to set up loans to finance the acquisition are capitalised and amortised over the terms of the loans. If the business combination is realised in separate phases, the fair value of the interest held by the surviving party in the party acquired will be recalculated as at the acquisition date and changes in value will be taken to the income statement.

Goodwill that arises as a result of a business combination is initially recognised at purchase price (i.e. the difference between the purchase price of the business combination and the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities). If the purchase price of a business combination is lower than the net fair value of the assets and liabilities acquired, the difference is recognised directly in the statement of profit or loss, as a bargain purchase gain on the acquisition date.

The goodwill is subsequently valued at cost, net of any cumulative impairment losses. Goodwill is assessed for impairment each year, or more often if events or changing circumstances give cause to believe that the book value may have been subject to an impairment. For the purpose of this impairment assessment, the goodwill ensuing from a business combination is allocated from the acquisition date to the Group's cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the Group are allocated to those units or groups of units. An impairment is determined by assessing the realisable value of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. The realisable value is determined as either the value in use or the direct realisable value minus the selling costs, whichever is higher. If the realisable value of the cash-generating unit (or group of cash-generating units) is lower than the book value, an impairment is recognised. Impairment of goodwill is not reversed if the realisable value increases at a later date.

Translation of foreign currencies

The consolidated financial statements are presented in euros, which is also the Group's functional and reporting currency. Each group entity determines its own functional currency, and the items that are recognised in the financial statements of each entity are valued based on this functional currency.

I) Transactions and balance sheet items

Transactions in a foreign currency are recognised initially at the exchange rate for the functional currency on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate in force on the balance sheet date. All differences are charged to the statement of profit or loss, except for the differences relating to permanently invested loans to non-Dutch participations that serve to finance these non-Dutch participations, and for which no repayments are scheduled and/or immediately foreseen. These differences are recognised directly in equity until the net investment in question is disposed of, at which time they are recognised in the statement of profit or loss. Non-monetary items that are valued at historical cost in a foreign currency are translated at the prevailing foreign exchange rates as at the date of the original transactions. Non-monetary items that are valued at fair value in a foreign currency are translated at the prevailing foreign exchange rates as at the date of determination of the fair value.

II) Group companies

On the reporting date, the assets and liabilities of the non-Dutch entities are translated to the Group's reporting currency (i.e. euros) at the foreign exchange rate on the balance sheet date, and to the statement of profit or loss at the foreign exchange rate on the date of the transactions.

The exchange differences ensuing from translating equity and the borrowings of participations are directly recognised as a separate equity component in the currency translation reserve. On disposal of a non-Dutch entity, the deferred cumulative amount recognised for that non-Dutch entity in the equity is then recognised in the statement of profit or loss.

Financial instruments

Financial assets

Financial assets are measured at fair value on initial recognition.
The Group's financial assets comprise cash and cash equivalents, trade and other receivables.
Following initial recognition, trade and other receivables are recognised at the amortised cost, if necessary net of any impairments.

Derecognition of financial assets on the balance sheet

A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is derecognised if the Group is no longer entitled to the cash flows from this asset, or if the Group has transferred its rights to the cash flows from this asset, or (a) has transferred all the risks and benefits associated with this asset, or (b) has not substantially transferred all the risks and benefits of this asset, but has instead transferred control.

Impairment of financial fixed assets

Financial instruments and contract assets
The Group recognises provisions for expected credit losses relating to:

- financial assets valued at amortised cost; and
- contract assets.

The Group measures provisions for credit losses at an amount equal to the expected credit losses during the entire term of the asset, with the exception of the following, which are valued at an amount equal to the expected credit losses in the coming 12 months:

- debt instruments that are determined to have a low credit risk on the reporting date; and
- other debt instruments and bank balances for which the credit risk (i.e. the risk of default during the expected life of the financial instrument) has not significantly increased since initial recognition.

Provisions for credit losses relating to trade receivables and contract assets are always valued at an amount equal to the expected credit losses during the entire term of the asset.

When determining whether the credit risk associated with a financial asset has substantially increased since initial recognition and when estimating expected credit losses, the Group uses reasonable supporting information that is relevant and available without incurring disproportionate cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and the credit assessment made by the Group, including forward-looking information.

The Group considers a financial asset to be in default if it is unlikely that the borrower will be able to fully meet its credit obligations towards the Group, without the Group taking recourse to debt-recovery actions such as invoking guarantees (if present).

Valuation of expected credit losses

The expected credit losses are a probability-weighted estimate of credit losses.
Credit losses are expressed as the present value of all cash deficits (i.e. the difference between the cash flows payable to the entity under the contract and the cash flows that the Group expects to receive). The expected credit losses are discounted at the effective interest rate of the financial asset.

Presentation on the balance sheet of the provision for expected credit losses

Provisions for credit losses for financial assets valued at amortised cost are deducted from the gross book value for the asset.

Write-downs

The gross book value of a financial asset is written down if the Group does not have a reasonable expectation of collecting all or part of it. In the case of corporate customers, the group makes an individual assessment of the timing and extent of write-down, based on whether there is a reasonable expectation of collection. The Group does not expect any significant recovery of amounts that have already been written down. However, in the case of derecognised financial assets, activities may still be carried out in order to comply with the Group's procedures for collecting defaulted amounts.

Financial liabilities

Financial liabilities are initially recognised at fair value, including directly attributable transaction costs in the case of borrowings. The Group's financial liabilities comprise trade and other payables, bank overdrafts and interest-bearing borrowings. After initial recognition, the financial liabilities are recognised and valued at amortised cost based on the effective interest method.

Derecognition of financial liabilities on the balance sheet

A financial liability is derecognised on the balance sheet when the contractual obligations arising from this are discharged or cancelled, or expire. If an existing financial liability is replaced by another in respect of the same lender but under substantially different terms, or the terms of the existing liability are changed significantly, any such replacement or change is treated as derecognition of the original liability on the balance sheet and a new liability is recognised. The difference in the associated book measures is included in the income statement.

Netting of financial instruments

Financial assets and financial liabilities are only offset against each other and reported at the net amount on the consolidated statement of financial position when there is a legally enforceable right to offset the amounts and an intention to net the amounts, or to realise the assets and settle the liability simultaneously.

Property, plant and equipment

Plant and equipment are recognised at cost, less the accumulated depreciation and the accumulated impairment.
The cost of daily maintenance is recognised directly in the statement of profit or loss.
The cost of replacing parts of this plant and equipment is only recognised on the balance sheet if it is likely that the resulting future economic benefits will accrue to the Group.
The book value for plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the book value may not be realisable.
Buildings and land are recognised at cost, net of accumulated depreciation on the buildings and the accumulated impairment.
Land and assets under construction are not depreciated; Depreciation is calculated using the straight line method based on the useful life and estimated residual value of the asset in question, as follows:

- buildings 10 to 25 years
- plant and equipment 5 to 10 years

Structural alterations and improvements to buildings that are leased are also recognised under buildings. Property, plant and equipment are derecognised on the balance sheet when disposed of or if no future economic benefits are expected from their use or disposal. Any gains or lossess arising from removal of the asset from the balance sheet (which is calculated as the difference between the net proceeds on disposal and the book value of the asset) is recognised in the statement of profit and loss during the year in which the asset is derecognised. The asset's residual value, useful life and the measurement methods are assessed at the end of each financial year and adjusted if necessary.

Leases, applicable from 1 January 2019

The right-of-use asset and the lease liability are recognised from the commencement date of the lease. The right-of-use asset is initially recognised at cost and subsequently at cost less the accumulated depreciation and accumulated impairment, adjusted based on specific recalculations of the lease liability.

At the time of initial recognition, the lease liability is valued based on the present value of the lease payments that still have to be made, discounted at the interest rate implicit in the lease in question, or if this interest rate cannot be determined, the Group's incremental borrowing rate. In general, the Group uses the incremental borrowing rate as the discount rate. Following measurement at the time of initial recognition, the lease liability is increased by the interest expenses and reduced by the lease instalments paid on each subsequent occasion. Recalculation takes place when the future lease payments change due to a change in an index or rate, a change in the estimated payable amount in relation to a residual value guarantee, or, if applicable, a change in the expectation that a purchase option or renewal option will be exercised, or if it is expected that a termination option will be exercised.

The Group has exercised its own judgement when determining the lease term for some leases with renewal options. The estimation whether the Group will, with a reasonable degree of certainty, make use of such options has an effect on the lease term, which in turn significantly affects the amount of the lease liability and the right-of-use asset.

Leases commencing prior to 1 January 2019

Determining whether an arrangement is, or contains, a lease, is based on the terms of the arrangement at the time of agreeing the lease arrangement. The agreement is (or contains) a lease if fulfilment of the agreement depends on the use of one or more specific assets and the agreement contains the right to use the asset(s), even if that right is not explicitly stated in an arrangement.

Group as the lessee

A lease is classified as a financial lease or operating lease on the date of the agreement. A lease that transfers substantially all risks and rewards of ownership to the Group is classified as a financial lease. All other leases are classified as operating leases.

Financial leases are capitalised at the start of the lease at the fair value of the leased asset on the commencement date or, if lower, at the present value of the minimal lease payments. Lease payments are split between the finance costs and the reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. The costs of financing are presented in the profit and loss account under finance costs.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable assurance that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the estimated useful life of the asset, or the lease term, whichever is shorter. Operating lease payments are recognised on a straight-line basis as an operating expense in the statement of profit or loss during the lease term.

Intangible fixed assets (excluding goodwill)

Separately acquired intangible fixed assets are initially recognised at cost. Expenditure after initial recognition is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. After initial recognition, intangible fixed assets are carried at cost less accumulated amortisation and any accumulated losses due to impairment. Intangible fixed assets with a definable useful life are amortised over the useful life and assessed for impairment if there are indications that the intangible fixed asset may have been subject to an impairment. The amortisation period and method for an intangible fixed asset with a definable useful life are assessed at the end of each financial year at the latest. Changes in the expected useful life or in the expected pattern of future economic benefits of the asset are recognised by changing the amortisation period or method and treated as a change in the accounting estimate.

The amortisation charge relating to intangible fixed assets is recognised as follows in the statement of profit or loss:

- software 5 to 10 years
- customer relationships 5 to 10 years

Any gains and lossess arising from removal of an intangible fixed asset from the balance sheet are calculated as the difference between the net proceeds on disposal and the book value of the asset, and recognised in the statement of profit and loss at the time of derecognition.

Impairment of non-financial assets (excluding goodwill)

The Group assesses whether there are indications that an asset has been subject to an impairment on each reporting date. If any such indication exists, or if annual impairment assessment of an asset is required, the Group estimates the asset's realisable value.
The realisable value of an asset is the value in use, or the immediate realisable value of an asset when sold, or the cash-generating unit net of the selling costs, whichever is higher. The realisable value is determined for each asset individually, unless the asset does not generate cash flows that are largely independent of those of other assets or groups of assets. If the book value of an asset exceeds the realisable value, the asset is deemed to have been subject to an impairment and is written down to the realisable value.
The realisable value is the value in use or the direct realisable value minus the selling costs, whichever is higher.

When assessing the value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects the current market assessments of the time value of money and the specific risks associated with the asset. Impairments losses of continuing operations are included in the statement of profit or loss in the expense category that corresponds to the function of the impaired asset. In the case of assets (excluding goodwill), an assessment is made on each reporting date to determine whether there are indications that a previously recognised loss due to impairment no longer exists or has decreased, and if so an estimation is made of the realisable value.
A previously recognised loss due to impairment is only reversed if a change has arisen in the assumptions used to determine the realisable value of the asset since the last impairment loss was recognised. If this is the case, the asset's book value is increased to the realisable value.
This increased amount may not exceed the value that would have been determined, net of amortisation and depreciation, if no loss due to impairment had been recognised for the asset in previous years. Any such reversal is recognised in the statement of profit or loss.

Inventories

Inventories are valued at either cost or net realisable value, whichever is lower.
The cost includes the following cost items:

Raw materials and consumables	- Purchase price on a first-in/first-out basis
Work in progress and finished goods	- Direct costs of materials and labour, plus a portion of the fixed production costs based on the normal operating capacity, but excluding finance costs

The net realisable value is the estimated selling price in the ordinary course of business, minus the estimated costs of completion and the estimated costs of finalising the sale.

Cash and cash equivalents

Cash and cash equivalents on the balance sheet consist of bank balances and cash.
For the purposes of the consolidated cash flow statement, the cash and cash equivalents are as defined here.

Provisions

General

A provision is recognised if the Group has a current (contractual or constructive) obligation as a result of an event in the past, if it is probable that an outflow of resources will be required to settle a liability and if a reliable estimate can be made of the amount of the liability. If the Group expects that a provision or a part of that provision will be reimbursed,

e.g. under an insurance contract, the reimbursement is only recognised as a separate asset if reimbursement is virtually certain. The expense associated with a provision is recognised in the statement of profit or loss net of any reimbursement.
If the effect of the time value of money is material, provisions are discounted to their present value at a post-tax discount rate that reflects the specific risks associated with the liability, if applicable. If discounting takes place, the increase in the provision due to the passage of time is recognised as finance costs.

Provision for warranty costs
A provision for warranty costs is recognised when the products in question have been sold, and is based on historical data and future estimations of products that will be returned for repair and redelivery.

Provision for deferred income
In the case of contracts where customers have the option of returning products based on an individual warranty agreement, a provision is maintained for advance payments received by the Group for this, where the obligation to perform the repair lies in the future. The revenues for the warranty obligation are recognised over the term of the warranty period.

Provision for onerous contracts
A provision for onerous contracts is recognised for expected losses incurred in relation to an ongoing contract and valued at the present value of the expected costs of terminating the contract or, if lower, at the present value of the expected net costs associated with continuing the contract. The Group recognises any loss due to impairment for the assets that are related to the contract first, before a provision is made.

Provision for claims
A provision for claims is made if a ruling against the Group is likely in a legal dispute. The provision represents the best estimate of the amount for which the liability can be settled, and also includes legal costs.

Pensions and other post-employment benefits
Since 1 January 2019, the Group has a defined contribution plan based on the career-average system for employees of the Dutch participations, for which amounts must be paid into the separately managed industry-wide pension fund 'Pensioenfonds Metalektro'. Until 31 December 2018, the Group also had a defined contribution plan based on the career-average system for employees of the Dutch participations, managed by the 'Metaal en Techniek' industry-wide pension fund. Other legal entities also contribute to these pension plans. The participating businesses do not have any obligation to pay any shortfalls in this pension fund, and also have no claim to possible surpluses.
For these reasons, these pension plans are treated as defined contribution plans in the financial statements.

The Group has defined-benefit pension plans and early retirement plans for employees and former employees of a number of German participations. The costs of the defined-benefit pension plans and early retirement plans are determined annually in accordance with actuarial practice by a qualified actuary using the *'projected unit credit method'*. Revaluations, which include actuarial gains and losses, are recognised in other comprehensive income. Revaluations are not transferred to the statement of profit or loss in the following periods. The Group does not have any plan assets. The interest surplus is calculated by applying the discount rate to the net liability under the pension plan that exists at the beginning of the financial year, taking into account changes in the net liability during the financial year as a result of pension plan contributions and payouts. Interest expenses and other costs related to the defined-benefit and early retirement plans are recognised in the statement of profit or loss. In the event of a change to or curtailment of a pension plan or early retirement plan, the resulting changes in past service costs are recognised in the statement of profit or loss on the effective date of the change or curtailment.

Long-service provisions
Employees of the Dutch participations receive additional remuneration upon reaching a certain number of years in employment. The costs of these long-service bonuses are determined based on actuarial calculations.
Please refer to note 15 for the assumptions used in this respect.

Short-term employee benefits
Short-term employee benefits are recognised as an expense upon performance of the related service. A liability is recognised for the amount that is expected to be paid if the Group has a legal or constructive obligation to pay this amount as a result of services performed by the employee and the liability can be determined in a reliable manner.

Share-based payment transactions
Members of the Board of Directors and some other officers of the Group receive remunerations in the form of share-based payment transactions where these employees provide services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

The costs of equity-settled transactions with employees are valued at fair value on the grant date.

The fair value is determined based on the Black & Scholes model (see note 16 for more information). The plans that are in operation consist of a share option plan and a performance share plan. Performance conditions are not taken into account when valuing equity-settled transactions in the case of the share option plan. In the case of the performance share plan, performance conditions are taken into account when valuing equity-settled transactions.

The costs of equity-settled transactions, together with an equal increase in equity, are recognised in the period in which the conditions for performance and/or the service are fulfilled, ending on the date on which the employees concerned become fully entitled to the award (i.e. the date on which they become unconditional). These costs are recognised as personnel costs. The cumulative costs recognised for equity-settled transactions as at the reporting date reflect the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

The amount charged to the statement of profit or loss for a specific period reflects the changes in the cumulative expense that is recognised at the beginning and end of that period.

If a commitment settled in equity instruments is cancelled, it is treated as if it has become unconditional as of the cancellation date, and any expense not yet recognised for this commitment is recognised immediately. However, if the cancelled commitment is replaced by a new commitment and the latter is designated as a replacement commitment on the allocation date, the cancelled and the new commitments are treated as though they are changes to the original commitment, as set out in the previous paragraph.

The dilution effect on the existing options and performance shares is reflected as an additional dilution of the shares when calculating the diluted earnings per share (see also note 21).

Revenue recognition

Revenues are valued based on the fee specified in a contract with the customer. The Group recognises revenues at the time when it transfers control of the goods or services to the customer. For the types of products listed below, information about the nature and time of meeting performance obligations in contracts with customers, including key payment terms and the associated principles for revenue recognition, is provided.

Standard products

Customers acquire the right of disposal of standard products when the goods are delivered to and accepted at their premises. This is also the time when revenues are recognised. Invoices are generated at that time and are usually payable within 30 to 90 days.

For some customers, it has been agreed that the goods be delivered as consignment stock to the customer's warehouse. The revenues are recognised when the goods are withdrawn from the customer's consignment stock. Invoices are generated at that time and are usually payable within 30 to 90 days.

Products made to order

In the case of products made to order, the Group has determined that the customer has right of disposal of the finished goods when the products have been manufactured. This is due to the fact that products made under these contracts are produced to a customer's specifications and, if a contract is terminated by the customer, the Group is entitled to reimbursement of the costs incurred up to that date, including a reasonable margin.

The resulting uninvoiced amounts are presented as contract assets. Revenues and the associated costs are recognised over time, in this case before the goods are delivered to the customer. The related margin is realised at the time when production has been completed and the product is in stock as a finished item.

Contract assets

The contract assets relate to the Group's rights to reimbursement for work completed for products made to order, which has not been invoiced on the reporting date. The contract assets are reclassified as receivables when the rights become unconditional. In general, this occurs when the Group sends an invoice to the customer.

Work in progress

The Group carries out development, prototyping and engineering projects for the customer. The projects run for different periods.

Revenues are recognised over time based on the cost-to-complete method. The related costs are recognised in the profit or loss statement when they are incurred. Advances that have been received are included under the other payables.

Revenues from work in progress amounted to approximately 4% of the total revenues of the Group in financial year 2019 (2018: approximately 4%).

Finance costs

The interest expenses listed below are recognised based on the amortised cost using the effective interest method.

Taxation

Current tax and deferred tax

Current tax and deferred tax assets and liabilities for the current and previous years are valued at the amount that is expected to be recovered from or paid to the tax authorities. The amount of taxation is calculated based on the tax rates and applicable tax legislation, as determined by law on the reporting date, in the countries in which the Group generates taxable income. Current income tax that relates to items recognised directly in equity is accounted for as equity and not in the statement of profit or loss.
Management periodically evaluates the positions taken in tax returns in situations where different interpretations are possible and makes provisions where necessary.

Deferred taxation

A provision for deferred tax liabilities is formed based on the temporary differences as at the balance sheet date between the fiscal book value of the assets and liabilities and the book value assigned to them in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences, other than in the following cases:

- If the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, does not have any influence on the profit before tax or the fiscal result
- In respect of taxable temporary differences pertaining to investments in subsidiaries, if the time of resolution can be controlled wholly independently and it is probable that the temporary difference will not be resolved in the near future.

Deferred tax assets are recognised for all deductible temporary differences, unused tax facilities and tax losses available for offset, insofar as it is probable that taxable profit will be available from which the deductible temporary difference can be offset, and the deductible temporary differences, unused tax facilities and tax losses available for offset can be utilised, except:

- If the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, does not have any influence on the profit before tax or the taxable result.
- For deductible differences relating to investments in subsidiaries, to the extent that it is probable that the temporary difference will be resolved in the near future and taxable profit will be available against which the temporary difference can be offset.

The book value for the deferred tax assets is assessed on the balance sheet date and reduced to the extent that it is not probable that adequate taxable profit will be available against which the temporary difference can be fully or partially offset. Unrecognised deferred tax assets are reassessed on the balance sheet date and recognised to the extent that it is probable that taxable profit will be available in the future against which these deferred assets can be offset.
Deferred tax assets and liabilities are valued at the tax rates that are expected to apply to the period in which the asset will be realised or the liability settled, based on the tax rates determined by law and prevailing tax legislation. The tax on items recognised directly in equity is accounted for as equity instead of in the statement of profit or loss.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to set off tax assets against tax liabilities and the deferred taxation relates to the same taxable entity and the same tax authority.

Government grants

Government grants are recognised if there is a reasonable degree of certainty that the grant will be received and that all relevant conditions will be met. If the grant relates to a cost item, the grant is recognised as income for the period necessary for allocating it systematically to the costs for which the grant is intended. If the grant relates to an asset, the fair value is credited to an accrual that is released to the statement of profit or loss in equal annual instalments during the expected useful life of the asset concerned.

3. KEY ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

When preparing the Group's financial statements, management has a duty to make judgements, estimates and assumptions on the balance sheet date that affect the reported amounts of revenues, expenses, assets, liabilities and off-balance sheet commitments. However, the inherent uncertainty relating to these assumptions and estimates may lead to outcomes that require material amendments to the book value for the asset or liability in question.

Judgements

When applying the Group's financial reporting principles, the following judgements made by management are those that have the most significant effect on the amounts recognised in the financial statements.

Pensions
The pension plans for the employees in the Netherlands have been placed with two industry-wide pension funds. These are group plans based on the career-average system in which other legal entities also participate. These plans are administered by 'Bedrijfstakpensioenfonds Metalektro' and 'Pensioenfonds Metaal en Techniek'.
The participating businesses do not have any obligation to pay any shortfalls in this pension funds, and also have no claim to possible surpluses.
For these reasons, these pension plans are treated as contribution plans in the financial statements. From 1 January 2019, all employees are registered with 'Bedrijfstakpensioenfonds Metalektro'.

Lease liabilities – renewal options
A number of commercial leases contain renewal options that can be exercised by the Group up to one year before the end of the non-cancellable contract period. The renewal options can only be exercised by the Group and not by the lessors. The Group determines during the term of the lease whether it is reasonably certain that the renewal options will be exercised. The group re-assesses whether it is reasonably certain that the options will be exercised in the case of an important event, or important changes in circumstances that the Group itself controls.
The Group has estimated that, if it were to exercise the renewal options of a maximum of 5 years, the potential future lease payments would result in an increase of € 15 million in the lease liabilities.

Revenue recognition
Please refer to 'Revenue recognition' under note 2.2 'Summary of key accounting principles' for details of when the Group's revenues are recognised, over time or at a specific moment in time.

Estimates and assumptions
The key assumptions regarding the future and other significant sources of estimation uncertainty on the balance sheet date, and which by their nature have a significant risk of requiring a material adjustment to the book value of assets and liabilities in the next financial year, are set out below.

Fair value of assets and liabilities
Contingent consideration balances arising from business combinations are valued at fair value on the acquisition date, as part of the business combination. If the contingent consideration satisfies the definition of a financial liability, revaluation at fair value takes place subsequently on each reporting date. The fair value is based on the cash flows after they have been discounted to their present value. The key assumptions take into account the likelihood of performance targets being met, and the discount rate.

Property, plant and equipment
The asset's residual value, useful life and the valuation methods are assessed at the end of each financial year and adjusted if necessary. No adjustments were made during the financial year.

Impairment of goodwill
The Group determines at least once a year whether goodwill has been subject to impairment. This requires an estimate of the value in use of the cash-generating units to which goodwill is allocated.
To assess the value in use, the Group makes an assessment of the expected future cash flows from the cash-generating unit and also determines a suitable discount rate in order to calculate the present value of those cash flows. The book value of the goodwill as at 31 December 2019 was € 2.8 million (2018: € 2.8 million). For more information, refer to note 6.

Deferred tax assets
Deferred tax assets relating to tax losses carried forward are recognised to the extent that it is likely that taxable profits will be available against which the losses can be offset, Determining the amount of deferred tax assets that can be recognised requires significant management judgement based on the probable timing and level of future taxable profits, in combination with future tax planning strategies. The book value of the deferred tax asset for tax losses as at 31 December 2019 was € 3.8 million (2018: € 4.5 million).
All tax losses in Germany are recognised on the balance sheet as per 31 December 2019. For more information, refer to note 7.

Inventories
When valuing inventories, an estimate is made of possible obsolescence. This involves making estimates based on both historical and future revenue. Future revenue is based on secured orders in the future. As at 31 December 2019, the provision for inventory write-downs amounted to € 10.3 million (2018: € 11.1 million).

Provision for onerous contracts
When determining the amount of this provision, assumptions and estimates have been made in relation to the expected costs of continuing the contracts until the time of delivery.

Pension plans and long-service bonuses
The costs of defined-benefit pension plans, early retirement plans and long-service bonus arrangements are determined using actuarial methods. The actuarial methods include making assumptions about discount rates, future salary increases, mortality rates and future indexation of pension benefits. Due to the long-term nature of these arrangements, these estimates are subject to considerable uncertainty. All assumptions are reviewed on each reporting date. The net commitment as at 31 December 2019 amounted to € 5.4 million (2018: € 5.0 million). For more information, refer to note 15.

4. AS YET UNADOPTED STANDARDS AND INTERPRETATIONS

A number of new standards are effective for financial years starting after 1 January 2019, but may be applied earlier. However, when preparing its consolidated financial statements, the Group has not opted for early application of any new or amended standards.
The following amended standards and interpretations are not expected to have a significant effect on the Group's consolidated financial statements.

- Changes in references to the conceptual framework in IFRS standards.
- Definition of a business (changes to IFRS 3).
- Definition of 'material' (changes to IAS 1 and IAS 8).
- IFRS 17 Insurance contracts.
- Sale or contribution of assets between an investor and its associate or joint venture (changes to IFRS 10 and IAS 28).

Because the above-mentioned amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements, the estimated quantitative and/or qualitative impact has not been explained further.

5. PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment are shown in the table below:

Amounts x € 1,000	Buildings and land	Plant and equipment	Assets under construction	Total
Cost:				
Balance as at 1 January 2018	**24,398**	**87,775**	**722**	**112,895**
Additions	198	8,981	2,320	11,499
Disposals	0	–755	0	–755
Currency translation differences	0	–8	0	–8
Balance as at 31 December 2018	**24,596**	**95,993**	**3,042**	**123,631**
Recognition of rights of use on initial adoption of IFRS 16	32,697	1,750	0	34,447
Amended balance as at 1 January 2019	**57,293**	**97,743**	**3,042**	**158,078**
Additions	5,624	9,941	1,306	16,871
Disposals	0	–8,991	0	–8,991
Reclassification	–605	4,106	–3,501	0
Currency translation differences	0	21	0	21
Balance as at 31 December 2019	**62,312**	**102,820**	**847**	**165,979**

Amounts x € 1,000	Buildings and land	Plant and equipment	Assets under construction	Total
Depreciation and impairment:				
Balance as at 1 January 2018	**8,787**	**68,451**	**0**	**77,238**
Depreciation charge for the financial year	825	6,539	0	7,364
Disposals	0	–714	0	–714
Balance as at 31 December 2018	**9,612**	**74,276**	**0**	**83,888**
Depreciation charge for the financial year	5,272	7,373	0	12,645
Disposals	0	–8,847	0	–8,847
Reclassification	–138	138	0	0
Balance as at 31 December 2019	**14,746**	**72,940**	**0**	**87,686**
Carrying amount:				
As at 31 December 2019	47,566	29,880	847	78,293
As at 31 December 2018	14,984	21,717	3,042	39,743
As at 1 January 2018	15,611	19,324	722	35,657

Assets under construction are not depreciated. Plant and equipment have been pledged to the lenders as security. For more information, refer to note 13.
Information about lease liabilities is provided in note 23.

6. INTANGIBLE FIXED ASSETS

The changes in intangible fixed assets are shown in the table below:

Amounts x € 1,000	Software	Goodwill	Customer relationships	Total
Cost:				
Balance as at 1 January 2018	**11,853**	**2,798**	**8,386**	**23,037**
Additions	213	0	0	213
Balance as at 31 December 2018	**12,066**	**2,798**	**8,386**	**23,250**
Additions	113	0	0	113
Disposals	–15	0	0	–15
Balance as at 31 December 2019	**12,164**	**2,798**	**8,386**	**23,348**

Amounts x € 1,000	Software	Goodwill	Customer relationships	Total
Amortisation and impairment:				
Balance as at 1 January 2018	**5,923**	**44**	**5,212**	**11,179**
Amortisation	988	0	846	1,834
Balance as at 31 December 2018	**6,911**	**44**	**6,058**	**13,013**
Amortisation	1,128	0	682	1,810
Depreciation on disposals	–15	0	0	–15
Balance as at 31 December 2019	**8,024**	**44**	**6,740**	**14,808**
Carrying amount:				
As at 31 December 2019	4,140	2,754	1,646	8,540
As at 31 December 2018	5,155	2,754	2,328	10,237
As at 1 January 2018	5,930	2,754	3,174	11,858

The customer relationships include customer orders and customer bases acquired through business combinations in 2014, resulting from the process of recognising and identifying all identifiable intangible assets acquired at the time of the acquisition. Customer orders have already been amortised over a period of 1 to 2 years. Customer bases are amortised over a period of 5 to 10 years.

The estimated amortisation on customer relationships in the coming four years is as follows:
2020: € 0.5 million
2021: € 0.5 million
2022: € 0.3 million
2023: € 0.2 million

The software is amortised on a linear basis over a period of 5 to 10 years. If there are indications of an impairment, an estimate is made of the realisable value and an impairment is recognised if the realisable value is lower than the book value.

The book value of the software as at 31 December 2019 includes € 3.2 million (31 December 2018: € 3.7 million) of costs for the Infor-LN project. Amortisation takes place over a period of 10 years from the time of commissioning. On the balance sheet date, it was determined that the book value of this software was not subject to impairment.

Assessment of impairment of goodwill

The production companies within the Group are the cash-generating unit to which this goodwill, which arose via business combinations, is allocated. All the legal entities within the Group are inextricably linked, meaning that there is only one cash-generating unit.

The Group carried out its annual impairment assessment as at 31 December 2019. As at 31 December 2019, the Group's market capitalisation exceeded the book value of its equity.

The realisable value of the goodwill is determined based on value in use.
The future cash flows are used to calculate this value, in line with the cash-generating unit's financial budgets and forecasts over a period of five years. The discount rate used in this case (before tax) is 15.2% (2018: 15.2%). The cash flows after the 5-year period have been extrapolated using a growth rate of 2.0% (2018: 2.0%).

Key assumptions when calculating the value in use

The following assumptions have the greatest effect on the calculation of the value in use of the cash-generating unit.

- Operating result
- Discount rates
- The growth rate used to extrapolate cash flows beyond the budgetary period

Operating result

The operating result as a percentage of revenue is based on the average measures realised during the past three years, plus efficiency improvements expected during the budgetary period.

Discount rates

Discount rates reflect management's current assessment of the specific market risks relating to the cash-generating unit. It is the measure used by management to assess operational performance and proposals for future investments. The discount rate after tax used in this case is 11.4% (2018: 11.4%) and reflects the weighted average cost of capital (WACC).

Growth rate

The use of a 0% growth rate for the revenue after the 5-year period would not give rise to an impairment.

Sensitivity to changes in assumptions

When assessing the value in use of the cash-generating unit, management believes that a reasonably possible change in one or more of the above-mentioned key assumptions would be unlikely to lead to a situation where the cash-generating unit's book value would materially exceed its realisable value. The calculated value in use is substantially higher than the cash-generating unit's book value. The consequences of the key assumptions for the realisable value are explained in detail below.

- Operating result: An increase in the operating result of up to 2% per year from 2020 would not lead to an impairment
- Discount rates: A discount rate (after tax) of 15% would not lead to an impairment

7. TAXATION

Amounts x € 1,000	Consolidated statement of financial position		Consolidated statement of profit or loss		Other comprehensive income	
	2019	2018	2019	2018	2019	2018
Deferred tax assets						
Available from unused tax losses	3,786	4,544	–758	–719		
Intangible fixed assets	209	274	–64	40		
Financial fixed assets	174	160	13	11		
Pensions	586	466	–39	–40	160	7
Other valuation differences	269	136	187	–336		
Total deferred tax assets	**5,024**	**5,580**	**–661**	**–1,044**	**160**	**7**
Deferred tax liabilities						
Intangible fixed assets	–317	–303	–60	18		
Customer relationships	–494	–698	205	254		
Property, plant and equipment	–617	–601	31	173		
Inventories	–238	–354	116	1		
Other provisions	–224	–122	–102	170		
Proceeds from products recognised over time	–909	–909	0	0		
Other valuation differences	–110	–190	23	83		
Total deferred tax liabilities	**–2,909**	**–3,177**	**213**	**699**	**0**	**0**
Net deferred tax asset	**2,115**	**2,403**	**–448**	**–345**	**160**	**7**
Recognised as follows on the balance sheet:						
Deferred tax assets	3,461	3,820				
Deferred tax liabilities	–1,346	–1,417				
Net deferred tax asset	**2,115**	**2,403**				

The tax burden in the consolidated statement of profit or loss breaks down as follows:

Amounts x € 1,000	2019	2018
Income tax for the current financial year		
Current tax charge	–3,702	–5,057
Tax rate adjustment in respect of previous years	–300	39
Deferred taxation:		
In relation to the materialisation and settlement of temporary differences	310	374
Income tax included in the consolidated statement of profit and loss	**–3,692**	**–4,644**
Deferred taxation on items recognised in other comprehensive income during the financial year:		
Tax income/(expense) on defined-benefit pension plans	160	7
Income tax included in other comprehensive income	**160**	**7**

The reconciliation between taxation at the rate applicable in the Netherlands and the effective tax rate for the Group is as follows:

Amounts x € 1,000	2019	2018
Result before taxes	**12,285**	**19,075**
Taxation at the rate of 25% applicable in the Netherlands	–3,059	–4,760
Effect of other tax rates that apply for non-Dutch participations	–168	–121
Tax rate adjustment in respect of previous years	–132	40
Non-deductible expense	–214	120
Losses in the current financial year for which no deferred tax receivable has been recognised	–98	–3
Effect of lower tax rate on deferred tax liabilities	–21	80
Income tax included in the consolidated statement of profit and loss	**–3,692**	**–4,644**

The Group has recognised deferred tax assets at a total of € 3.8 million (31 December 2018: € 4.5 million), which relate entirely to tax loss carryforward, representing a total amount of unused losses of approximately € 12.4 million (31 December 2018: approximately € 15 million). The entire receivable of € 3.8 million relates to tax loss carryforward in Germany. When valuing the tax loss carryforward, an estimate has been made of the expected profits to be realised during the coming five years. All unused tax losses in Germany are recognised on the balance sheet as at 31 December 2019. The relevant unused losses in Germany, generated by Neways Deutschland GmbH, can be carried forward in time indefinitely.

Furthermore, no deferred tax assets have been recognised on the balance sheet for unused losses that could potentially be carried forward in China, which amount to € 0.6 million (31 December 2018: € 0.3 million), as it is currently not yet likely that the Group will realise future taxable profits, against which it could utilise these deferred tax assets. The ability to carry these unused losses forward lapses after 5 years.

The company, together with the 100% participations established in the Netherlands, is part of a single 'fiscal unity' for corporate income tax. The company, together with these participations, is jointly and severally liable for all corporate income tax debts.

The effective tax rate, i.e. the ratio between total tax and the profit before corporate income tax, amounts to 30.2% (2018: 24.3%). The regions where the Group operates are the Netherlands, Germany, Slovakia, the Czech Republic, China and the United States, where the following tax rates applied in 2019: The Netherlands 25%, Germany 30%, Slovakia 21%, Czech Republic 19%, China 25% and the United States 27%.

8. INVENTORIES

The provision included for inventory write-downs amounts to € 10.3 million (2018: € 11.1 million). The net change in the provision is € 0.8 million (2018: € 0.8 million). The provision mainly relates to materials for products that are no longer manufactured and delivered and for which there is no longer any demand on the balance sheet date, but which are still held in stock and used occasionally. Inventories have been pledged to the lenders as security.
For more information, refer to note 13.

9. TRADE AND OTHER RECEIVABLES

Amounts x € 1,000	2019	2018
Trade and other receivables	65,984	55,147
Related parties	4,919	6,906
Total	**70,903**	**62,053**

For the conditions relating to receivables due from related parties, refer to note 22.

The trade receivables do not include receivables with a remaining term in excess of one year. Trade receivables have been pledged to the lenders as security. Trade receivables are not interest-bearing and generally subject to a payment term of 30 to 90 days.

As at 31 December 2019, trade receivables with a nominal value of € 0.9 million (2018: € 0.9 million) were subject to an impairment and a provision had been made for this. An individual provision is made for each receivable.

The changes in the provision for impairment of receivables are as follows (see note 25 for further information on credit risk):

Amounts x € 1,000	2019	2018
Balance as at 1 January	**918**	**855**
Expenses for the financial year	231	346
Write-downs	0	–228
Unused amounts reversed	–207	–55
Balance as at 31 December	**942**	**918**

The analysis of overdue but unimpaired receivables as at 31 December is as follows:

Amounts x € 1,000						Overdue but not subject to impairment	
	Total	Not overdue nor subject to impairment	< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2019	70,903	57,806	8,198	1,124	492	1,587	1,696
2018	62,053	52,275	6,757	1,563	446	348	664

10. CASH AND CASH EQUIVALENTS

The cash and cash equivalents are freely available during 2018 and 2019.

11. EQUITY

For details of the different equity components and the changes in equity between 31 December 2018 and 31 December 2019, please refer to the consolidated statement of changes in equity.

Capital

As at 31 December 2019, the authorised share capital amounted to € 15,000,000 (as at 31 December 2018: € 15,000,000), consisting of 30,000,000 ordinary shares with a nominal value of € 0.50 per share.
As at 31 December 2019, 12,149,534 of these ordinary shares had been issued and paid in full (31 December 2018: 11,957,624), resulting in paid-in capital of € 6,074,767 (31 December 2018: € 5,978,812). The breakdown of the increase in the number of issued and fully paid-in ordinary shares during the financial years 2018 and 2019 is as follows:

Number x 1,000	Note	Ordinary shares issued and paid-in
1 January 2018		**11,481**
Issued in exchange for cash payment upon exercise of share options	16	18
Issued due to conversion of convertible subordinated borrowings	13	459
31 December 2018		**11,958**
Issued in exchange for cash payment upon exercise of share options	16	63
Issued due to conversion of convertible subordinated borrowings	13	129
31 December 2019		**12,150**

Share premium

The amounts contributed by shareholders in excess of the nominal share capital are recognised as share premium. This also includes additional capital contributions made by existing shareholders without any issue of shares, or issue of rights to subscribe for or acquire shares in the business.
The share premium as at 31 December 2018 includes an amount allocated to the equity component of the convertible subordinated borrowings issued by the Group in 2014 (see consolidated statement of changes in equity). As at 31 December 2019, no further convertible subordinated borrowings were drawn down. In 2019, the remaining convertible subordinated borrowings were converted to shares.

Currency translation reserve

The translation reserve comprises both the currency translation differences arising from the translation of the financial statements of non-Dutch participations and the currency translation differences arising from the translation of permanently invested loans to non-Dutch participations that serve to finance these non-Dutch participations and for which no repayments are foreseen.

12. DIVIDEND PAID AND PROPOSED

The Board of Directors proposes that the net profit be added to the retained earnings. The Board of Directors also proposes that a dividend of € 0.28 per share be distributed for the 2019 financial year. The dividend will be paid in cash.

Amounts x € 1,000	2019	2018
Approved and paid during the year		
Dividend on ordinary shares:		
Final dividend for 2018: € 0.48 (2017: € 0.35)	5,815	4,184
Proposed for approval by the General Meeting of Shareholders		
Dividend on ordinary shares:		
Final dividend for 2019: € 0.28 (2018: € 0.48)	3,402	5,740

13. OTHER FINANCIAL LIABILITIES

Amounts x € 1,000	Effective interest rate	Maturity date	Outstanding amount	Outstanding amount
			2019	2018
Current				
Financial lease	3.4% – 3.6%	31 Jan. 2019	0	44
Bank credit facilities	Euribor + (1.3% – 2.2%)	Due	36,545	41,817
Lease liabilities	1.5%	31 Dec. 2028	5,379	0
Convertible subordinated borrowings	4.6%	30 Sep. 2019	0	1,086
Total current interest-bearing borrowings			**41,924**	**42,947**
Long-term				
Lease liabilities	1.5%	31 Dec. 2028	29,519	0
Total long-term interest-bearing borrowings			**29,519**	**0**

Financial lease (3.4% - 3.6%)
These are borrowings with a term of 4 years. Repayment takes place in monthly instalments on an annuity basis. These borrowings were repaid in full as at 31 December 2019.

Bank credit facilities
The credit facility available as at 31 December 2019 (overdraft and bank guarantee facility) amounted to a total of € 65.0 million (interest charge: 1-month Euribor + 1.3% to 2.2%, depending on the senior net debt/EBITDA ratio). Of this amount, € 40.6 million was in use for the bank overdraft and bank guarantees on the balance sheet date (31 December 2018: € 42.1 million). As security for the repayment of the debts to the financial institutions, a pledge has been established on business inventory, machinery, inventories, receivables (excluding contract assets) and on the rights under the credit insurance policy of the Dutch and German group companies. The total value of the pledge as at 31 December 2019 was approximately € 116 million. On behalf of the Company, all Dutch and German group companies have issued a joint and several liability statement in respect of the financial institutions. Furthermore, the financial institutions require the guaranteed capital (adjusted for the net deferred tax assets and intangible fixed assets) as at 31 December 2019 be at least € 55 million and an EBITDA of € 12.5 million or more. More information about the bank covenants with financial institutions is provided in note 25.

Lease liabilities (1.5%)
This relates to the present value of the remaining lease instalments, discounted at the Group's incremental borrowing rate.

Convertible subordinated borrowings (4.6%)
The convertible subordinated borrowings with a nominal value of € 5 million agreed in 2014 have a conversion price of € 8.50 per share and a conversion right running from 30 September 2017 to 30 September 2019. Any subordinated borrowings not converted are repayable immediately. The nominal interest rate is 4%. The repayments of the principal of these borrowings are subordinated to all other existing and future debt to third parties. In 2019, the remaining amount of € 1.1 million (2018: € 3.9 million) was converted to shares.

Fair value
The fair value for each financial instrument of the Group approximates the book value. The fair value of cash and cash equivalents, trade receivables, other receivables, trade payables and other payables approximates the book value, mainly due to their short terms to maturity. Bank overdrafts are payable on demand.

Hierarchy of fair values
The Group uses the following hierarchy when determining and reporting financial instruments, split out by valuation method.
Level 1: quoted (unadjusted) prices on active markets for identical assets or liabilities
Level 2: other methods where all variables have a significant effect on the recognised fair value, and are directly or indirectly observable
Level 3: methods where all variables are used that have a significant effect on the fair value measurement, but which are not based on observable market information
During financial years 2018 and 2019, the Group did not make use of financial instruments measured at fair value.

In the case of recurring assets and liabilities recognised in the financial statements, the Group reassesses these at the end of each review period to determine whether there has been a change in classification within the hierarchy (based on the input at the lowest level with significance for the entire measurement). No transfers took place between Level 1 and Level 2 during the period under review.

14. PROVISIONS

In 2019, movements in the provisions item were as follows:

Amounts x € 1,000	Onerous contracts	Claims provision	Total
Balance as at 1 January 2019	**1,505**	**1,000**	**2,505**
Arising during the year	188	170	358
Utilised	–799	–300	–1,099
Released	–84	–50	–134
Balance as at 31 December 2019	**810**	**820**	**1,630**
Current	485	570	1,055
Long-term	325	250	575

Onerous contracts

The provision for onerous contracts relates to expected losses on ongoing development projects and other onerous contracts.

Claims provision

The provision for claims relates to disputes in which the business is involved.

15. PENSIONS, EARLY RETIREMENT PLANS AND LONG-SERVICE BONUSES

Pension provisions

The Neways Group has pension plans for its employees in the Netherlands and for some of its employees in Germany.

The pension plans for the employees in the Netherlands have been placed with an industry-wide pension fund. These are group plans based on the career-average system in which other legal entities also participate. These plans are administered by 'Bedrijfstakpensioen-fonds Metalektro'. Until the end of 2018, some of the employees in the Netherlands were still registered contributors to the pension plan administered by 'Pensioenfonds Metaal en Techniek'. As of 1 January, all employees were transferred to 'Bedrijfstakpensioenfonds Metalektro'. The participating businesses do not have any obligation to pay any shortfalls in this pension fund, and also have no claim to possible surpluses. For these reasons, this pension plan is treated as a contribution plan in the financial statements.
At the end of 2019, the funding ratio of *Bedrijfstakpensioenfonds Metalektro* was 98.7% (2018: 97.6%), while that of *Pensioenfonds Metaal en Techniek* was 99.4% at the end of 2018. The funding ratio is lower than the funding ratio required under the recovery plan. The pension fund has an approved recovery plan, which aims to achieve recovery of the funding ratio through measures such as foregoing future indexation of pensions, scaling back pension payments, and increasing pension contributions. In the light of this, no additional contribution is required from the business. A top-up pension plan, administered by Zwitserleven, applies to some employees in the Netherlands. This pension plan is classed as a contribution plan. There is no obligation to make good any shortfalls.

The pension plan for employees in Germany is a self-administered commitment that is classed as a defined-benefit plan (without plan assets). The pension plan is a final pay plan, where the amount of the benefit depends on the period of service and the salary on the retirement date.
The participants do not have to pay contributions into the pension plan. To guarantee future payment of accrued pension rights, the employer pays the statutory contributions to the pension benefits guarantee fund ('Pensionsversicherungsverein'), which takes over a company's outstanding pension obligations in the event of insolvency. The pension obligations are determined and recognised in accordance with IAS 19. The pension plan is exposed to interest-rate risk and changes in the life expectancy of the pensioners.

Early retirement plans

There is an early retirement plan for some of the employees in Germany. The early retirement benefits and contributions are recognised in accordance with IAS 19.

Provision for long-service bonuses

The employees in the Netherlands receive additional remuneration upon reaching a certain number of years of employment. The obligations relating to these long-service bonuses are recognised in accordance with IAS 19.

The changes in the present value of the liability for pensions, early retirement benefits and long-service bonuses during the financial year were as follows:

Amounts x € 1,000	Pension provisions		Early retirement provisions		Provision for long-service bonuses		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Balance as at 1 January	**4,031**	**4,146**	**27**	**0**	**901**	**960**	**4,959**	**5,106**
Costs allocated to the financial year	19	27	6	27	201	64	226	118
Interest expense	61	60	0	0	0	0	61	60
Amounts paid out	–191	–186	0	0	–119	–123	–310	–309
Employer contributions	–42	–39	0	0	0	0	–42	–39
Total	**–153**	**–138**	**6**	**27**	**82**	**–59**	**–65**	**–170**
Revaluation of (profit)/losses included in other comprehensive income:								
Adjustments due to changes in the financial assumptions	540	–56	0	0	0	0	540	–56
Experience adjustments	–8	2	0	0	0	0	–8	2
Demographic adjustments	0	77	0	0	0	0	0	77
Total	**532**	**23**	**0**	**0**	**0**	**0**	**532**	**23**
Balance as at 31 December	**4,410**	**4,031**	**33**	**27**	**983**	**901**	**5,426**	**4,959**

The total expense in the consolidated statement of comprehensive income for the plans and arrangements relating to pensions, early retirement and long-service can be broken down as follows:

Amounts x € 1,000	Pension provisions		Early retirement plans		Provision for long-service bonuses		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Expenditure charged to the statement of profit or loss								
Costs allocated to the financial year	19	27	6	27	201	64	226	118
Interest expense	61	60	0	0	0	0	61	60
Subtotal in the statement of profit or loss	**80**	**87**	**6**	**27**	**201**	**64**	**287**	**178**
Revaluation of (profit)/losses included in other comprehensive income:								
Adjustments due to changes in the financial assumptions	540	–56	0	0	0	0	540	–56
Experience adjustments	–8	2	0	0	0	0	–8	2
Demographic adjustments	0	77	0	0	0	0	0	77
Total pension and long-service expenses	**612**	**110**	**6**	**27**	**201**	**64**	**819**	**201**

In 2020, the Group expects to contribute € 39,000 (2019: € 39,000) to the defined-benefit pension plans. The average term of the obligation under the defined-benefit pension plans as at 31 December 2019 amounted to 11.4 years (2018: 10.9 years). The adjustments due to changes in financial assumptions reflect a 1.0% reduction in the discount rate.

Key assumptions used in the actuarial calculations for the plans in respect of the pension obligations for the German employees:

	2019	2018
Discount rate	0.6%	1.6%
Future salary increases	0.0%	0.0%
Future pension increases	1.75%	1.75%
Estimated remaining life expectancy of pensioners (years)	11.4	10.9

Quantitative sensitivity analysis of the key assumptions used in the actuarial calculations for the German employee plans as at 31 December 2019:

Amounts x € 1,000	Discount rate		Future salary increases		Future pension increases		Life expectancy of pensioners	
Sensitivity	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease	Increase of 1 year	Decrease of 1 year
Impact on the liability	–285	274	0	0	305	–281	320	–312

Key assumptions used in the actuarial calculations for the plans in respect of the long-service bonus obligations relating to the Dutch employees:

	2019	2018
Discount rate	0.6%	1.6%
Departure rate	40%	41%

Quantitative sensitivity analysis of the key assumptions used in the actuarial calculations for the Dutch employee plans as at 31 December 2019:

Amounts x € 1,000	Discount rate		Departure rate	
Sensitivity	0.5% increase	0.5% decrease	5% increase	5% decrease
Impact on the liability	–39	42	–83	74

The above sensitivity analyses have been prepared on the basis of extrapolation of the effect that reasonable changes in the key assumptions at the end of the reporting period will have on the defined-benefit pension obligation and the long-service bonus obligations. The expense in 2019 for the pension plans recognised as defined-contribution plans for the employees in the Netherlands amounts to € 4,182,000 (2018: € 4,029,000). Roughly the same level of expenditure is expected for 2020.

16. SHARE-BASED PAYMENT AGREEMENTS

Until 2017, Neways Group offered a share option plan for members of the Board of Directors and a select group of key company officers who had been employed by Neways Group for at least one year prior to the year in which the options were granted. This plan has resulted in the allocation of non-transferable options on Neways shares. The options become vested after three years and may be exercised during a two-year period from that date, meaning that the total term is five years. The options may only be exercised by converting them into shares. If an option holder leaves the company, his/her option rights lapse.

During the financial year, 62,500 options were exercised. The fair value of the options granted before 31 December 2018 is € 231,286. The weighted average fair value per option is € 1.30. In total, an amount of € 47,179 has been recognised as expense in the statement of profit or loss (2018: € 69,493). The average share price of Neways' shares in 2019 was € 11.65 (2018: € 13.22).

The table below shows the changes and the exercise price of the share options.

Option holders	Balance as at 31/12/2018	Lapsed 2019	Exercised 2019[1]	Balance as at 31/12/2019	Exercise price (in €)	Term
H.W.T. van der Vrande	125,000[2]			125,000[2]	6.00	12/2019
	15,000			15,000	9.79	04/2020
	15,000			15,000	7.10	04/2021
	15,000			15,000	11.71	04/2022
P.H.J. de Koning	15,000		–15,000	0		
	15,000			15,000	11.71	04/2022
A.A.H. van Bragt	15,000		–15,000	0		
	15,000		–15,000	0		
	15,000			15,000	11.71	04/2022
Other company officers employed by the business	7,500		–7,500	0		
	22,500		–10,000	12,500	7.10	04/2021
	27,500			27,500	11.71	04/2022
Total	**302,500**	**0**	**–62,500**	**240,000**		

1) The weighted average price on the dates when these options were exercised was € 12.90.

2) Options held by major shareholders. The term of these options will be extended to 22 December 2020 at the beginning of 2020.

Following adoption by the General Meeting of Shareholders on 18 April 2017, the Group introduced a 'performance share plan' under which the members of the Board of Directors and a select group of key company officers are conditionally granted performance shares in the company. Note 22 details the allocation per member of the Board of Directors and per key company officer.

Performance shares vest at the end of a three-year performance period, subject to (i) the achievement of predetermined financial targets that adequately reflect the Company's long-term strategy and (ii) the holder continuing to work as a member of the Board of Directors or, as applicable, as a key company officer ('participant'). The award percentage is determined on a linear basis between the minimum level (50% allocation) and the maximum level (200% allocation). If a participant leaves the company during the three-year performance period, any unvested performance shares for that participant will lapse.
Prior to vesting, performance shares do not give the holder any rights on those shares, such as dividend or voting rights. Vested performance shares must be held by the participants for a period of two years from the date of vesting.

During the financial year, 35,438 performance shares (based on 100% achievement of target) were awarded (2018: 29,078). As the financial targets set for financial year 2019 have not been met, all performance shares conditionally granted in 2019 will lapse at the end of 2019. The fair value of the performance shares granted during the financial year is therefore zero (2018: € 399,770). The fair value per performance share is € 12.06 (2018: € 14.11).
In total, € 311,626 (2018: € 235,809) has been recognised as an expense in the statement of profit or loss. Due to achievement of the performance criteria in 2018 above the 100% target level, the number of vested shares over 2018 increased by 9,327 shares.

The following table shows the changes in the number of outstanding performance shares upon achievement of the desired performance level.

Number	2019	2018
Balance as at 1 January	**63,432**	**36,170**
Awarded during the year	35,438	29,078
Lapsed during the year due to departure	–2,561	–1,816
Lapsed at the end of the financial year due to not vesting	–34,618	0
Awarded during the year based on vesting in the previous year	9,327	0
Balance as at 31 December	**71,018**	**63,432**

The table below shows the assumptions used to calculate the fair value of the allocated performance shares in the financial year.

	2019	2018
Dividend yield (%)	4.98	3.13
Expected volatility of the share (%)	28.43	24.31
Risk-free interest rate (%)	–0.54	–0.38
Expected term of the performance shares (in years)	3.00	3.00
Expected to vest (%)	100.00	100.00

The Black & Scholes model was used to determine the fair value of the options and the performance shares on the allocation date. The expected share volatility is based on the assumption that past volatility is indicative of the future trend. The expected term is based on historical data regarding lapsing of options and performance shares. Management believes that a possible change in one or more of the above assumptions would not cause the fair value of the share options or performance shares to differ materially from the calculated fair value.

17. TRADE AND OTHER PAYABLES

Amounts x € 1,000	2019	2018
Trade payables	62,161	64,684
Other payables	19,218	16,975
Interest payable	296	82
Related parties	1,185	1,092
Total	**82,860**	**82,833**

This item includes € 148,000 (31 December 2018: € 1,036,000) in non-current liabilities.

The following conditions apply to these financial liabilities:

- Trade payables are not interest-bearing and generally subject to a payment term of around 60 days.
- Other payables are not interest-bearing and subject to an average payment term of 6 months.
- The interest payable is normally settled quarterly during the financial year.
- For the conditions for related parties, refer to note 22.
- For an explanation of the credit risk policy within the Group, refer to note 25.

18. PERSONNEL COSTS

Amounts x € 1,000	Note	2019	2018
Wages and salaries		117,433	114,238
Pension costs		4,324	4,225
Other social security costs		16,391	15,194
Costs of share option and performance share plans	16	359	305
Total employee costs		**138,507**	**133,962**

During 2019, the Group employed an average of 2,940 people (2018: 2,943). This also includes temporary staff. In total, an average of 2,561 people were employed by Neways (2018: 2,511). Of the total workforce, an average of 1,786 people including temporary staff were employed by non-Dutch participations (2018: 1,823). The split by job function group was as follows:

Average number expressed in FTEs	2019	2018
General administrative	388	412
Engineering and development	476	439
Logistics	129	218
Production	1,711	1,666
Warehouse	236	208
Total	**2,940**	**2,943**

19. DEPRECIATION AND AMORTISATION

Amounts x € 1,000	2019	2018
Depreciation of property, plant and equipment	12,645	7,364
Amortisation of intangible fixed assets	1,810	1,834
Total depreciation and amortisation	**14,455**	**9,198**

20. FINANCE COSTS

Amounts x € 1,000	2019	2018
Interest on borrowings and bank overdrafts	1,851	1,602
Interest on lease liabilities	613	0
Other	474	365
Total finance costs	**2,938**	**1,967**

21. EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share are calculated by dividing the net profit attributable to holders of ordinary shares by the weighted average number of ordinary shares in issue during the financial year.

Diluted earnings per share

This represents net profit attributable to ordinary shareholders, adjusted for interest expense (net of tax) on the convertible subordinated borrowings (to the extent that the average share price during the financial year exceeds the conversion price), divided by the sum of the weighted average number of ordinary shares in issue during the year and the weighted average number of ordinary shares that would have been issued upon conversion into ordinary shares of all dilutive potential ordinary shares. In the case of a negative earnings per share, the diluted earnings per share will show no improvement.

As at 31 December 2019, the diluted earnings per share was € 0.70 (2018: € 1.18).
The table below shows the net profit and number of shares taken as the basis for calculating the basic and diluted earnings per share:

Number x 1,000	2019	2018
Net profit attributable to holders of ordinary shares for the purpose of calculating the diluted earnings per share	**8,518**	**14,431**
Interest on convertible subordinated borrowings	28	96
Net profit attributable to holders of ordinary shares, adjusted for the effect of dilution	**8,546**	**14,527**

Number x 1,000	2019	2018
Weighted average number of ordinary shares	12,097	11,854
Effect of dilution:		
Share options	49	186
Performance shares	63	58
Conversion value of subordinated borrowings	29	229
Adjusted weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share	**12,238**	**12,327**

No other transactions in ordinary shares or potential ordinary shares took place between the reporting date and the date on which these financial statements were prepared.

22. INFORMATION ABOUT RELATED PARTIES

The consolidated financial statements include the financial data of Neways Electronics International N.V. and its subsidiaries as listed in the table below:

		% participation	
	Domicile/country	2019	2018
Neways B.V.	Son, The Netherlands	100	100
Neways Industrial Systems B.V.	Son, The Netherlands	100	100
Neways Technologies B.V.	Son, The Netherlands	100	100
Neways Advanced Applications B.V.	Son, The Netherlands	100	100
Neways Micro Electronics B.V.	Echt, The Netherlands	100	100
Neways Cable & Wire Solutions B.V.	Echt, The Netherlands	100	100
Neways Leeuwarden B.V.	Leeuwarden, The Netherlands	100	100
Neways Deutschland GmbH	Riesa, Germany	100	100
Neways Neunkirchen GmbH	Neunkirchen, Germany	100	100
Neways Vertriebs GmbH	Neunkirchen, Germany	100	100
Neways Electronics Riesa GmbH & Co. KG	Riesa, Germany	100	100
Neways Technologies GmbH Erfurt	Erfurt, Germany	100	100
Neways Electronics Děčín s.r.o.	Decín, Czech Republic	100	100
Neways Slovakia a.s.	Nová Dubnica, Slovakia	100	100
Neways Wuxi Electronics Co. Ltd.	Wuxi, China	100	100
Neways Electronics US Inc.	Wilmington, USA	100	100

In 2019, a legal merger took place between Neways Beteiligungs GmbH and Neways Vertriebs GmbH, resulting in the absorption of Neways Beteiligungs GmbH by Neways Vertriebs GmbH. Neways Holding GmbH merged in 2019 with Neways Deutschland GmbH, leaving Neways Deutschland GmbH as the remaining company.
In 2018, Neways Beteiligungs GmbH and Neways Holding GmbH were 100% participations of Neways Electronics International N.V.

The Group holds a minority interest in the following entity:

		% participation	
	Domicile/country	2019	2018
Qualifizierungszentrum Region Riesa GmbH	Riesa, Germany	5.26	5.26

The table below shows the total number of transactions with related parties for the financial year in question (for information about the outstanding balance as at 31 December 2019 and 2018, see notes 9 and 17):

Amounts x € 1,000		Sales to	Purchases/ services from	Owed by	Owed to
Entity with significant influence on the Group:					
VDL Groep	2019	23,188	4,594	4,479	1,185
VDL Groep	2018	23,363	4,556	6,906	1,092

Entity with significant influence on the Group
VDL Groep: As at 31 December 2019, VDL Beleggingen B.V. held 27.4% of the issued shares in Neways Electronics International N.V. (31 December 2018: 27.9%).

Conditions governing transactions with related parties
The transactions with related parties take place subject to conditions that are equivalent to those that apply between independent parties. Outstanding balances at the end of the financial year are not secured by arm's length collateral, are not interest-bearing and are settled in cash.
No guarantees have been given or received for the receivables owed by, or the payables owed to the related parties. At the end of 2019, the Group did not recognise a provision for bad debts in connection with the receivables owed by related parties (2018: zero). This assessment is carried out each financial year based on an analysis of the related party's financial position and the market in which it operates.

Obligations in respect of related parties

In 2014, the Group issued convertible subordinated borrowings with a nominal value of € 5.0 million to shareholders with an interest of more than 3%. The last tranche, amounting to € 1.1 million, was converted to shares in the financial year (see also note 13).

Remuneration of Board of Directors members

A new remuneration policy came into effect from 18 April 2017. The main change was the introduction of a 'performance share plan' under which the members of the Board of Directors are conditionally granted performance shares in the company each year. The number of performance shares that will vest at the end of a three-year performance period depends on the extent to which the target set for profit margin growth for that period is met. Note 16 provides more information about the 'performance share plan' and the number of performance shares that have been allocated.
In addition, the remuneration of the members of the Board of Directors comprises a basic salary component and an annual bonus. The Supervisory Board determines the remuneration annually, within the framework set by the remuneration policy. The basic salaries are not subject to any automatic pay rises under a collective agreement. Each year, the Supervisory Board determines a bonus arrangement for the reporting year. The bonus arrangement is linked to achievement of predetermined quantitative performance targets. The bonuses awarded are recognised in the relevant reporting year and are based on the performance targets achieved in the financial year. The bonuses are paid after the financial statements have been adopted.

The value of the share options is based on the fair value of the share options allocated in the financial year. More information on the number of options to purchase shares allocated as a result of Board members' participation in the share option plan and the determination of the fair value of the options is provided in note 16.

The pensions of the members of the Board of Directors have been placed with the industry-wide pension fund administered by *Bedrijfstakpensioenfonds Metalektro*. This pension plan, which includes an early retirement component, is based on average salary. In addition, one of the members of the Board of Directors has a supplementary pension based on the defined contribution system.

The ratio between the remuneration of the members of the Board of Directors and the average remuneration of the other employees during 2019 was 9:1 (in 2018, this ratio was 11:1). This ratio is based on the average remuneration of € 430,000 paid to the members of the Board of Directors in 2019 (2018: € 468,000) as stated in the summary of remuneration paid to the members of the Board of Directors compared to the average remuneration of all employees in the operating companies in Western Europe, which is € 42,000 (2018: € 41,000). This average remuneration is based on the wages and salaries plus bonuses, options and performance shares of the employees in Western Europe, divided by the average number of employees in Western Europe.

The remuneration of the members of the Board of Directors and other key company officers is as follows (amounts x € 1,000):

2019	Basic salary	Pension charges	Social security costs	Bonuses	Long-term remuneration	Other	Total
H.W.T. van der Vrande	327	37	13	66	77	33	553
P.H.J. de Koning	286	37	13	58	66	18	478
A.A.H. van Bragt	286	37	14	58	66	19	480
Total remuneration of the Board of Directors	**899**	**111**	**40**	**182**	**209**	**70**	**1,511**
Other key company officers	**2,239**	**222**	**223**	**394**	**144**	**228**	**3,450**

2018	Basic salary	Pension charges	Social security costs	Bonuses	Long-term remuneration	Other	Total
H.W.T. van der Vrande	318	39	10	118	75	57	617
P.H.J. de Koning	278	39	10	103	66	19	515
A.A.H. van Bragt	278	39	10	103	66	19	515
Total remuneration of the Board of Directors	**874**	**117**	**30**	**324**	**207**	**95**	**1,647**
Other key company officers	**2,152**	**228**	**203**	**444**	**193**	**209**	**3,429**

No severance payments for other key company officers were included in the personnel costs in the financial year (2018: € 108,000).
The balance of the conditionally granted performance shares at the end of the financial year is as follows:

	2019	2018			2017		
	Number	Number	Allocation date	Vesting date	Number	allocation date	Vesting date
H.W.T. van der Vrande	0	7,478	23/04/2018	23/04/2021	7,412	18/04/2017	18/04/2020
P.H.J. de Koning	0	6,542	23/04/2018	23/04/2021	6,483	18/04/2017	18/04/2020
A.A.H. van Bragt	0	6,542	23/04/2018	23/04/2021	6,483	18/04/2017	18/04/2020
Total remuneration of the Board of Directors	**0**	**20,562**			20,378		
Other key company officers	**0**	**14,498**	**23/04/2018**	23/04/2021	15,323	18/04/2017	18/04/2020

The performance shares vest three years after they have been allocated, subject to the condition that the employee is still employed by Neways, or was employed by Neways at the time of the employee's retirement.
As the financial targets set for financial year 2019 have not been met, the shares allocated conditionally during 2019 have lapsed.

Remuneration of the Supervisory Board

The members of the Supervisory Board receive fixed remuneration that does not depend on the results.
The members of the Supervisory Board received the following remuneration:

Amounts x € 1,000	2019	2018
H. Scheepers (Chairman)	40	40
R. Penning de Vries	30	30
P. van Bommel	30	30
Total	**100**	**100**

23. LEASES

Leases in which the company is the lessee (IFRS 16)

Rental contracts

The Group has leases for the majority of the buildings it uses. On average, these leases run for between 5 and 15 years, with an option to renew at the end of that period. Some leases include provisions for making annual adjustments to the rent based on price indexes. The leases for the buildings were previously classified as operating leases under IAS 17.

Other leases

The Group has leases for several operating assets, which were previously classified as operating leases under IAS 17. On average, these leases are for between 3 and 5 years.

Information about leases where the Group is the lessee are shown on the right.

Rights of use

Rights of use in respect of leased buildings and other operating assets are recognised as property, plant and equipment.

Amounts x € 1,000	Buildings and land	Plant and equipment	Total
Balance as at 1 January	32,697	1,750	**34,447**
Depreciation charge for the financial year	–4,322	–826	**–5,148**

Financial lease liabilities

Lease liabilities are payable as follows:

As at 31 December 2019

Amounts x € 1,000	Present value of minimal lease payments
Less than 1 year	5,379
Between 1 and 5 years	17,526
More than 5 years	11,993
	34,898

24. CONTINGENT EVENTS AND OBLIGATIONS

Guarantees

The Group has issued bank guarantees for an amount of € 4.1 million (2018: € 4.5 million) in respect of credit provided by non-Dutch banks.

Claims

As part of the normal course of business, the Group is occasionally involved in legal proceedings. The results are not expected to have a substantial impact on equity and profit.

Fiscal unity

The Company, together with the Dutch Group Companies, is part of the 'fiscal unity' (single taxable entity under Dutch tax law) for the purpose of corporate income tax and turnover tax. The Company is jointly and severally liable for debts arising pursuant to these taxes.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY

The Group's main financial liabilities are bank overdrafts, convertible subordinated borrowings, and trade payables. The main purpose of these financial instruments is to provide finance for the Group's business activities. The Group has a range of financial assets, the principal financial instruments being trade receivables and cash and cash equivalents that arise directly from operating activities.

The main risks associated with the Group's financial instruments are market risks (interest rate risks on cash flows and currency risks), liquidity risks, and credit risks. The Group's management reviews and approves the policy for controlling these risks (see the summary below).

Market risk

The sensitivity analyses presented in the following sections are based on the assumption that the amount of net debt, the ratio between fixed and variable rate debt, and the proportion of derivatives denominated in foreign currencies remain constant.

The following assumptions were used when calculating the sensitivity analyses:

- The sensitivity relating to equity is based on the effect that the assumed changes in the US dollar exchange rate have on the participation in China.
- The sensitivity relating to the statement of profit or loss consists of the effect of the assumed changes in the relevant market risks, based on the financial assets and financial liabilities as at 31 December 2019 and 2018.

Interest rate risk

The Group's risk exposure due to fluctuations in market interest rates mainly relates to the Group's bank overdrafts. The Group's policy is to control interest expenses through having a combination of debt with fixed and with variable interest rates. For a summary of the interest rates, refer to note 13.

Interest rate risk table

The following table shows the sensitivity of the Group's profit after tax (based on the effect of bank overdrafts) to a reasonably possible change in interest rates, with all other variables assumed to be constant. This does not materially affect the Group's equity.

	Increase/decrease in basis points	Effect on profit before tax (x € 1,000)
2019	+15	–170
	–10	114
2018	+15	–134
	–10	84

Currency risk

The Group is exposed to currency risks on transactions. These risks relate to purchases or sales made by the business units in currencies other than the functional currency. The Group's policy is to keep the purchase volume in currencies other than the functional currency at approximately the same level as the sales volume in the same currencies. This is a continuous process throughout the year, which has the effect of mitigating the risk of a mismatch between incoming and outgoing foreign currency cash flows to the greatest possible extent.

Exchange rate sensitivity

The following table shows the sensitivity of the Group's profit after tax (based on changes in the fair value of monetary assets and liabilities) and equity to a reasonably possible change in the US dollar exchange rate, assuming all other variables remain constant. The impact on the Group of exchange rate fluctuations in respect of all other currencies is not material.

	Change in USD exchange rate	Effect on profit before tax (x € 1,000)	Effect on equity (x € 1,000)
2019	+10%	621	–111
	–10%	–759	135
2018	+10%	781	–148
	–10%	–954	181

The change in the effect after taxation results from the change in the fair value of monetary assets and liabilities denominated in US dollars in view of the fact that the entity's functional currency is the euro. The change in equity results from changes in the US dollar-denominated participation in China.

Liquidity risk

The Group monitors its risk of a shortage of funds through frequent reviews of the bank balances and projected cash flows from the Group's operating activities. The table below shows the maturity dates of the Group's financial liabilities as at 31 December 2019, based on contractually agreed nominal payments.

As at 31 December 2019

Amounts x € 1,000	Due	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing borrowings and bank overdrafts	36,545	1,804	3,575	17,526	11,993	71,443
Trade and other payables	9,525	67,474	5,713	148	0	82,860
Total	**46,070**	**69,278**	**9,287**	**17,675**	**11,993**	**154,303**

As at 31 December 2018

Amounts x € 1,000	Due	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing borrowings and bank overdrafts	41,817	53	1,108	0	0	42,978
Trade and other payables	12,759	63,542	5,496	1,036	0	82,833
Total	**54,576**	**63,595**	**6,604**	**1,036**	**0**	**125,811**

For a summary of the interest-bearing borrowings, refer to note 13.

Credit risk

The Group's policy is to subject all customers who wish to trade on credit terms to credit verification procedures. In addition, the outstanding balances are continuously monitored to ensure that the Group's exposure to bad-debt risks remains low. The Group also has credit insurance for a large part of its accounts receivable portfolio.

The maximum exposure to credit risk is the book value stated in note 9. Fifteen of the Group's customers account for approximately 65% of the balance of outstanding trade receivables. However, because these receivables are largely insured or associated with short credit terms under supplier finance programmes, management feels that the risk exposure is not unusually high. Furthermore, no payment problems with these customers have occurred in the recent past. The Group's credit risk exposure in relation to the other financial assets, which consist of cash and cash equivalents, is limited to their book value.

Capital management

The primary objective of the Group's capital management strategy is to maintain a good credit rating and healthy solvency to support the Group's activities and maximise shareholder value.

The Group manages its capital structure and adjusts it in response to changes in the economic climate. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, repay capital to shareholders, or issue new shares. In financial years 2019 and 2018, no changes were made to the objectives, policy or processes.

The Group monitors its capital based on the solvency ratio, i.e. the guaranteed capital adjusted for deferred tax assets and intangible assets, divided by the adjusted balance sheet total. The Group's policy is to maintain a solvency ratio of at least 35%.

Bank covenants

The current providers of bank overdrafts have set requirements for the Group's capital management. These covenants are specified in the credit agreements and are periodically monitored. The current credit covenant was agreed with the lenders in 2016 and renewed in early 2019 for a term of 3 years until early 2022, increasing the credit facility from € 52.5 million to € 65.0 million.

The covenants include a minimum LTM EBITDA (earnings before interest, tax and depreciation over the last 12 months) of € 12.5 million (excluding the effect of IFRS 15/16) and a minimum adjusted guaranteed capital of € 55 million as at 31 December 2019 and subsequent years. The lenders define the adjusted guaranteed capital as the Issued and paid-in capital, plus reserves and loans subordinated to the banks (and possibly other parties), minus intangible fixed assets, deferred tax assets, associated participations and receivables from shareholders and/or management and shares held by the company in its own capital.

The interest payable on the credit facility is the 1-month Euribor + 1.3% to 2.2%, depending on the senior net debt/EBITDA ratio.

The corrected guaranteed capital as at 31 December 2019 amounted to € 91.4 million. The Group exercises tight control over the working capital to improve solvency. If, and for as long as the corrected guaranteed capital is lower than the minimum amount of corrected guaranteed capital specified in the conditions, no profit distributions may be made in any form whatsoever. The LTM EBITDA, excluding the effect of IFRS 15/16, is € 24.2 million as at 31 December 2019. Failure to meet the minimum required amount of adjusted guaranteed capital and/or the LTM EBITDA results in the outstanding loans becoming immediately due and payable. As at 31 December 2019, the Group complies with all the credit agreement covenants set by the financial institutions. In combination with realisation of profit in 2020, the Group expects to comply with the revised covenants set by the lenders at the beginning of 2019 during the whole of 2020. At the beginning of 2020, use was made of the option for extending the credit agreement by one year, subject to the same conditions. As a result, the credit agreement runs until 11 February 2023.

26. EVENTS AFTER THE BALANCE SHEET DATE

There are no events after the balance sheet date that require reporting.

Company statement of financial position

Assets x € 1,000 as at 31 December	Note	2019	2018
Fixed assets			
Intangible fixed assets	2	**734**	**734**
Financial fixed assets			
Participations in group companies	3	46,310	53,521
Receivables from group companies	3	41,447	39,065
		87,757	**92,586**
Current assets			
Receivables			
Receivables from group companies	4	37,231	0
Cash and cash equivalents	7	**14,411**	**14,434**
Total assets		**140,133**	**107,754**

Liabilities x € 1,000 as at 31 December	Note	2019	2018
Equity	5		
Issued and paid-in capital		6,075	5,979
Share premium		46,313	44,326
Other reserves		41,237	32,513
Profit for the financial year		8,518	14,431
Currency translation reserve		701	658
Other legal reserves		3,245	3,725
		106,089	**101,632**
Non-current liabilities			
Interest-bearing borrowings	6	0	1,086
Deferred tax liabilities		1,236	1,230
		1,236	**2,316**
Current liabilities			
Bank overdrafts	8	13,631	0
Payables to group companies	9	16,951	1,776
Corporate income tax		1,727	1,783
Other payables		499	247
		32,808	**3,806**
Total equity and liabilities		**140,133**	**107,754**

Notes 1 to 16 are an integral part of these company financial statements.

Click here for the vertical presentation of the company statement of financial position.

Company statement of profit or loss

Amounts x € 1,000	Note	2019	2018
Operating income		0	0
Personnel costs	10	–593	–400
Other expenses		–146	–139
Operating result		**–739**	**–539**
Finance income		816	855
Finance costs		–689	–216
Net finance charges		**127**	**639**
Profit from participations	11	9,144	14,197
Profit before tax		**8,532**	**14,297**
Tax income/(expense)	12	–14	134
Net profit		**8,518**	**14,431**

Notes 1 to 16 are an integral part of these company financial statements.

Notes to the company financial statements

1. GENERAL

These company financial statements and the consolidated financial statements together form the statutory financial statements of Neways Electronics International N.V. (hereinafter: 'the Company'). The financial information relating to the Company is included in the consolidated financial statements of the Company. The company financial statements of Neways Electronics International N.V. have been prepared based on Part 9, Book 2 of the Dutch Civil Code (Burgerlijk Wetboek/BW).

The Company also avails itself of the option provided for in Book 2, Section 362(8) of the Dutch Civil Code when determining the accounting principles for measuring the assets and liabilities and profit or loss in its company financial statements. This means that the accounting principles for measuring the assets and liabilities and profit or loss (hereinafter referred to as the 'accounting principles') in the Company's company financial statements are the same as those applied to the consolidated EU-IFRS financial statements.
These consolidated EU-IFRS financial statements have been prepared in accordance with the standards approved by the International Accounting Standards Board and adopted by the European Union (hereinafter 'EU-IFRS'). Refer to note 2 of the consolidated financial statements for a description of these accounting principles. All amounts in the company financial statements are presented in thousands of euros, unless stated otherwise.

Participations in group companies

Group companies are all entities in which the company directly or indirectly exerts dominant control. The company has dominant control over an entity when it is exposed to, or has rights to, variable proceeds from its involvement in group companies and has the ability to influence such proceeds through its control of the group company. Group companies are included in the consolidation scope from the date on which the Company obtains control and are removed from the consolidation scope from the date on which the Company ceases to control the group company.

The participations in which significant influence is exercised on the business and financial policy are valued using the equity method based on the net asset value. The accounting principles of the business are used to determine the net asset value. Results on transactions involving transfers of assets and liabilities between the business and its participations and between participations themselves are eliminated to the extent that these can be deemed not to have been realised.

Participations interests with a negative net asset value are valued at zero. However, where the business guarantees all or part of the debts of a participation, or has a constructive obligation (relative to its share) to enable the participation to pay its debts, a provision is formed for the amount of the business' projected payments on behalf of the participation.

The provision is charged primarily to the long-term receivables from the participation, which must be identified as an expansion of the net investment. The remainder is recognised under provisions.

The other assets and liabilities are valued in accordance with the accounting principles set out in the notes to the consolidated financial statements. The same applies to the method used to determine the profit or loss. As a result, Neways Electronics International N.V.'s equity and net profit/loss are the same as that stated in the consolidated financial statements.

Profit/loss from participations

The share in the profit or loss of businesses in which there is a participating interest is the Company's share in the profit or loss of these participations. Results on transactions involving transfers of assets and liabilities between the Company and its participations and between participations themselves are eliminated to the extent that these can be deemed not to have been realised.

Taxation

The Company is the head of the fiscal unity. Corporate income tax is included for the part that the business would be liable to pay as an independent taxpayer, taking into account the allocation of the benefits of the fiscal unity. Netting within the fiscal unity between the Company and its subsidiaries takes place via the current account relationships.

2. INTANGIBLE FIXED ASSETS

This concerns the goodwill associated with the acquisition of the shares in Neways Slovakia a.s.

3. FINANCIAL FIXED ASSETS

Participations in group companies

The changes in the additions in group companies were as follows:

Amounts x € 1,000	2019	2018
Balance as at 1 January	**53,521**	**52,359**
Changes		
Profit from participations after tax	9,144	14,197
Other comprehensive income from participations after taxation	–372	–16
Dividends received from participations	–16,000	–15,000
Exchange differences	17	11
Adjustment for IFRS 15	0	2,053
Other changes	0	–83
	–7,211	**1,162**
Balance as at 31 December	**46,310**	**53,521**

The list of equity interests of the Company has been included in note 22 to the consolidated financial statements.

Receivables from group companies

The development of the receivables from group companies item was as follows:

Amounts x € 1,000	2019	2018
Balance as at 1 January	**39,065**	**38,993**
Changes		
Investments	2,357	34
Exchange differences	25	38
	2,382	**72**
Balance as at 31 December	**41,447**	**39,065**

Amounts x € 1,000	Interest rate	Outstanding amount 2019	Outstanding amount 2018
Loan to Neways Deutschland GmbH	2%	36,467	36,467
Loan to Neways Wuxi Electronics Co. Ltd.	1.75%	4,980	2,598
Total		**41,447**	**39,065**

Both loans are long-term and non-redeemable.

4. RECEIVABLES FROM GROUP COMPANIES

The receivables from group companies relate to receivables from participations in which the Group can exercise significant influence. These amounts (2018: zero) do not include receivables with a remaining term in excess of 1 year.

5. EQUITY

For details of the consolidated statement of changes in equity, refer to the notes to the consolidated statement of changes in equity. The other statutory reserves relate to a reserve for capitalised development costs at a participation.

The development of the other equity items is as follows:

Amounts x € 1,000	Other reserves	Profit for financial year	Other statutory reserves
Balance as at 1 January 2018	**24,259**	**9,920**	**4,206**
Restatement attributable to initial application of IFRS 15	2,053		
Amended balance as at 1 January 2018	**26,312**	**9,920**	**4,206**
Profit appropriation	9,920	–9,920	
Profit for the financial year		14,431	
Other comprehensive income	–16		
Amortisation of development costs	481		–481
Dividends	–4,184		
Balance as at 31 December 2018	**32,513**	**14,431**	**3,725**
Profit appropriation	14,431	–14,431	
Profit for the financial year		8,518	
Other comprehensive income	–372		
Amortisation of development costs	480		–480
Dividends	–5,815		
Balance as at 31 December 2019	**41,237**	**8,518**	**3,245**

Proposed profit appropriation in 2019

The Board of Directors, with the approval of the Supervisory Board, proposes to the General Meeting that the after-tax result for 2019 be appropriated as follows: an amount of € 3,402,000 will be paid out as dividend and the remaining amount of € 5,116,000 will be added to the other reserves.

A dividend of € 0.48 per share was paid out for financial year 2018. The proposed dividend payment for financial year 2019 is € 0.28 per share. For more information, refer to note 12 to the consolidated financial statements.

The business can only pay dividend to the shareholders and other entitled parties from profits eligible for distribution to the extent that its equity exceeds the amount of the paid-in and called-up part of the capital plus the reserves that have to be maintained by law or under the articles of association.

6. INTEREST-BEARING BORROWINGS

Amounts x € 1,000	Effective interest rate	Maturity date	Outstanding amount 2019	Outstanding amount 2018
Current				
Convertible subordinated borrowings	4.6%	30 Sep. 2019	0	1,086

For more information about these convertible subordinated borrowings, which were drawn down in financial year 2014 to finance the acquisition of the BuS Group, refer to note 13 to the consolidated financial statements.

7. CASH AND CASH EQUIVALENTS

The recognised cash and cash equivalents are freely available. The credit facility available as at 31 December 2019 (overdraft and bank guarantee facility) amounted to a total of € 65.0 million (interest charge: Euribor + 1.3% to 2.2%, depending on the net debt/EBITDA ratio). Of this amount, € 40.6 million was used for the bank overdraft and bank guarantees on the balance sheet date (31 December 2018: € 42.1 million). As security for the repayment of the debts to the financial institutions, a pledge has been established on business inventory, machinery, inventories, receivables and on the rights under the credit insurance policy of the Dutch and German group companies.
The total value of the pledge as at 31 December 2019 was approximately € 116 million. On behalf of the Company, all Dutch and German group companies have issued a joint and several liability statement in respect of the financial institutions. Furthermore, the financial institutions require the guaranteed capital (adjusted for the deferred tax assets and intangible fixed assets) as at 31 December 2019 to be at least € 55 million and an EBITDA of € 12.5 million or more. More information about the bank covenants with financial institutions is provided in note 25 to the consolidated financial statements.

8. BANK OVERDRAFTS

This concerns the use of the available credit facility. For more information, refer to note 7.

9. PAYABLES TO GROUP COMPANIES

The payables to group companies (2018: zero) do not include amounts with a remaining term in excess of 1 year.

10. PERSONNEL COSTS

The company does not have any employees. The personnel costs reflect the remuneration of the Supervisory Board and the costs of the share-based payment arrangements. For further details, refer to notes 16 and 22 to the consolidated financial statements.

11. PROFIT/LOSS FROM PARTICIPATIONS

The share in the profit or loss of businesses where there are participating interests reflects the Company's share in the profit or loss of these participations.

12. TAXATION

Taxation during the financial year amounted to ¯/- 2.3% (2018: 134%). The rate of taxation applicable in the Netherlands is 25%. Differences are caused by non-deductible costs for tax purposes and changes in deferred tax positions within the complete fiscal unity.

13. REMUNERATION OF THE BOARD OF DIRECTORS AND OF THE SUPERVISORY BOARD

With the exception of the share-based payment arrangements, the remuneration of the member of the Board of Directors is recognised in Neways B.V.

Refer to note 22 to the consolidated financial statements for the remuneration of the members of the Board of Directors and the Supervisory Board.

14. AUDITOR'S FEES

The following fees of KPMG Accountants N.V. have been charged to the business.

Amounts x € 1,000	KPMG Accountants N.V. 2019
Audit of the financial statements	310
Other audit assignments	0
Tax consultancy services	0
Other non-audit services	0

Amounts x € 1,000	KPMG Accountants N.V. 2018
Audit of the financial statements	251
Other audit engagements	0
Tax consultancy services	0
Other non-audit services	0

The fees stated in the table for auditing the 2019 financial statements (2018) relate to the total fees for auditing the 2019 financial statements (2018), regardless of whether the work had already been performed during financial year 2019 (2018).

15. FINANCIAL INSTRUMENTS

Interest rate risk

The Company's risk exposure due to fluctuations in market interest rates mainly relates to the Company's bank overdrafts and variable-rate non-current liabilities. The Company's policy is to control interest expenses through a combination of debt with fixed and variable interest rates. For a summary of the interest percentages, refer to notes 5 and 6.

For other risks, refer to the consolidated financial statements, note 25.

16. OFF-BALANCE SHEET COMMITMENTS

The Company, together with the Dutch Group Companies, is part of a fiscal unity for corporate income tax and VAT. The company is jointly and severally liable for debts arising pursuant to these taxes.

Pursuant to Section 403 of Book 2 of the Dutch Civil Code, the Company has assumed liability for the debts arising from legal acts of the Dutch group companies. The Company has also assumed liability for debts arising from legal acts of the German participation, Neways Deutschland GmbH.

The Company has issued bank guarantees for an amount of € 2.5 million (2018: € 4.5 million) in respect of credit provided by non-Dutch banks.

Son, 4 March 2020

Supervisory Board	**Board of Directors**
Henk Scheepers	Eric Stodel
Peter van Bommel	Paul de Koning
René Penning de Vries	Adrie van Bragt

KPMG

Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of Neways Electronics International N.V.

Report on the audit of the financial statements 2019 included in the annual report

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Neways Electronics International N.V. as at 31 December 2019 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- the accompanying company financial statements give a true and fair view of the financial position of Neways Electronics International N.V. as at 31 December 2019 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2019 of Neways Electronics International N.V. (the company) based in Son. The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

1 the consolidated statement of financial position as at 31 December 2019;
2 the following consolidated statements for 2019: the statements of profit and loss and comprehensive income, cash flows and changes in equity; and
3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1 the company statement of financial position as at 31 December 2019;
2 the company income statement for 2019; 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 the company 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

Materiality

- Materiality of EUR 625,000
- 5% of profit before tax

Group audit

- 85% of total assets
- 94% of revenue

Key audit matters

- Correct cut-off of revenue recognition
- Estimates with respect to the provision for obsolete inventory
- Leases – Transition to IFRS 16

Opinion

Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 625,000 (2018: EUR 850,000). The materiality is determined with reference to profit before tax (5% (2018: 5%)). We consider profit before tax as the most appropriate benchmark as the key stakeholders are primarily focused on profit before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 25,000 which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Neways Electronics International N.V. is at the head of a group of components. The financial information of this group is included in the financial statements of the company.

Our group audit mainly focused on significant components. We have performed audit procedures ourselves at group components Neways Advanced Applications B.V., Neways Industrial Systems B.V. and Neways B.V. We performed specific audit procedures on inventories and revenue at Neways Cable & Wire Solutions B.V. and Neways Leeuwarden B.V. We have made use of the work of KPMG Germany for the audit of the complete reporting packages of Neways Electronics Riesa GmbH and Neways Neunkirchen GmbH. We sent detailed instructions to KPMG Germany and received reporting back from them. We have taken notice of their findings and with respect to Neways Electronics Riesa GmbH we have discussed these together with KPMG Germany with local management.

Considering the significance and/or the risk profile of the remaining components, we have performed analytical procedures on the balance sheet and profit and loss statement for these components at group level to confirm our assessment that the risk of a material misstatement at these components is remote.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

The audit coverage as stated in the section summary can be further specified as follows:

78% Audit of the complete reporting package	**Total assets**	7% Audit of specific items
84% Audit of the complete reporting package	**Revenue**	10% Audit of specific items

Audit scope in relation to fraud

In accordance with the Dutch standards on auditing we are responsible for obtaining a high (but not absolute) level of assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

As part of our risk assessment process we have evaluated events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud ('fraud risk factors') to determine whether fraud risks are relevant to our audit.

We communicated identified fraud risks throughout our team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at group level.

In accordance with the auditing standard we evaluated that management override of controls (a presumed risk) is a fraud risks that is relevant to our audit.

Our audit procedures included an evaluation of the design, implementation as well as the operating effectiveness of internal controls relevant to mitigate these risks and substantive audit procedures, including detailed testing of high risk journal entries on revenue, raw materials and consumables and other expenses and evaluation of management bias.

In determining the audit procedures we will make use of the company's evaluation in relation to fraud risk management (prevention, detection and response), including the set-up of ethical standards to create a culture of honesty.

We communicated our risk assessment and audit response to management and the Supervisory Board. Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our procedures to address fraud risks did not result in the identification of a key audit matter.

We do note that our audit is based on the procedures described in line with applicable auditing standards and are not primarily designed to detect fraud.

Audit scope in relation to non-compliance with laws and regulations

We have evaluated facts and circumstances in order to assess laws and regulation relevant to the company.

We identified laws and regulations that could reasonably be expected to have a material effect on the financial statements based on our general understanding and sector experience, through discussion with relevant management and evaluating the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level. The potential effect of these laws and regulations on the financial statements varies considerably:

- Firstly, the company is subject to laws and regulations that directly affect the financial statements including taxation and financial reporting (including related company legislation). We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.
- Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognized or disclosures provided in the financial statements, or both, for instance through the imposition of fines or litigation.

We identified no laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognized or disclosures provided in the financial statements.

We considered the effect of actual or suspected non-compliance as part of our procedures on the related financial statement items.

Our procedures to address compliance with laws and regulations did not result in the identification of a key audit matter.

We do note that our audit is not primarily designed to detect non-compliance with laws and regulations and that management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud, including compliance with laws and regulations.

The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Correct cut-off of revenue recognition

Description

The correct cut-off of revenue as disclosed in paragraph Revenue recognition in the basis of preparation of the financial statements for products made to order is not supported by the systems of the company. Since the correct cut-off is determined manually and as such can increase the risk of material misstatements to the financial statements due to error, this was significant to our audit.

Our response

We have performed substantive audit procedures to verify the correct application of IFRS. We evaluated the reasonableness of management's key judgements and estimates made in applying IFRS, including selection of methods, assumptions and data sources.
We assessed the appropriateness of management's revenue recognition under IFRS for a sample of contracts. The accuracy and relevance of data was verified through involvement of our IT-specialists and through a sample.

Our observation

From our procedures on the correct cut-off of revenue at year-end no revenue appeared to be recorded in the wrong period.

Estimates with respect to the provision for obsolete inventory

Description

Significant inventories exist at Neways Advanced Applications B.V. and Neways Electronics Riesa GmbH. This results in an increased risk of obsolete inventories. Uncertainties are inherent to the assessment of the provision for obsolete inventories. Since this assessment requires judgment and the significance of the inventories for the financial statements, this was significant to our audit.

Our response

We have performed substantive audit procedures.
We have performed a retrospective analysis to evaluate the historical accuracy of management's estimates, from which no significant differences appeared.
We have reperformed the calculation of the provision for obsolete inventories prepared by management. We assessed the reliability of information used by management, which includes data such as historical usage and future use through involvement of our IT-specialists.
We evaluated the reasonableness of management's key judgements and estimates made in respect of the provision for obsolete inventories.
In our assessment we have also taken into consideration our observations from meetings with management, observation during inventory counts and expectations of management for 2020.

Our observation

We assess the assumptions applied by management with respect to the provision for obsolete inventories to be slight prudent.

Leases – Transition to IFRS16

Description

As from 2019 IFRS 16 needs to be applied, which replaces IAS 17 – Leases. IFRS 16 sees to the determination and financial recognition of lease liabilities and right-of-use asset. Note 2.2 to the 2019 financial statements discloses the impact of the first application of IFRS 16, which primarily consists of the valuation of right-of-use asset and lease liabilities for an amount of EUR 34.4 million. The impact on operating profit and profit before tax is not significant.
The estimate of the lease term, whether or not including renewal options, and discount rates require judgement and have a significant impact on the valuation of the aforementioned right-of-use asset and lease liabilities. The first time application of this standard together with the significant impact on the financial statements, the judgements to be made by management and the related disclosure requirements, makes this significant to our audit.

Our response

We have performed substantive audit procedures.
We evaluated the reasonableness of management's key judgements and estimates made in preparing the transition adjustments, specifically the assessment of the lease term and discount rates. We involved specialists to challenge key assumptions relating to discount rates applied with external resources (for example Bloomberg).
We have evaluated the completeness, accuracy and relevance of data used in preparing the transition adjustments, by verifying data with contracts, enquired with management and inspected expense accounts for rental expenses for contracts not recognized on the statement of financial position. We evaluated the completeness, accuracy and relevance of the transition disclosures.

Our observation

Overall we assess that the assumptions applied resulted in a balanced outcome.
The company's disclosures related to the adoption of IFRS 16 as set forth in item 2.2 of the Notes to the 2019 financial statements are in compliance with the requirements of IFRS.

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. Additionally, other information includes the remuneration report.

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

- is consistent with the financial statements and does not contain material misstatements; and
- 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 of Directors is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as auditor of Neways Electronics International N.V. on 16 April 2015, as of the audit for the year 2015 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Description of responsibilities regarding the financial statements

Responsibilities of the Board of Directors and the Supervisory Board for the financial statements

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

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Board of Directors 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 Supervisory 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 engagement 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 detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error 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 these 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.

A further description of our responsibilities for the audit of the financial statements is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01. This description forms part of our independent auditor's report.

Eindhoven, 4 March 2020

KPMG Accountants N.V.

M.J.A. Verhoeven RA

Trade register

The two-tier company is listed in the Commercial Register of the Chamber of Commerce for East Brabant (Kamer van Koophandel Oost Brabant) under number 17036989.

Provisions in the Articles of Association governing the appropriation of profit

Article 31 of the company's articles of association states that the company may only pay out distributable profit insofar as its equity exceeds the paid-in and called-up part of the capital plus the statutory reserves. After gaining the prior approval of the Supervisory Board, the Board of Directors may add the profit to the reserves, in whole or in part. The profit not added to the reserves is placed at the disposal of the General Meeting of Shareholders. Based on a proposal put forward by the Board of Directors and approved by the Supervisory Board, the General Meeting of Shareholders may resolve to distribute profit from a reserve available for profit distribution. The General Meeting of Shareholders may, pursuant to a proposal put forward by the Board of Directors and approved by the Supervisory Board, resolve to distribute profit in the form of shares in the company, without prejudice to the provisions of the company's articles of association regarding the issue of shares.

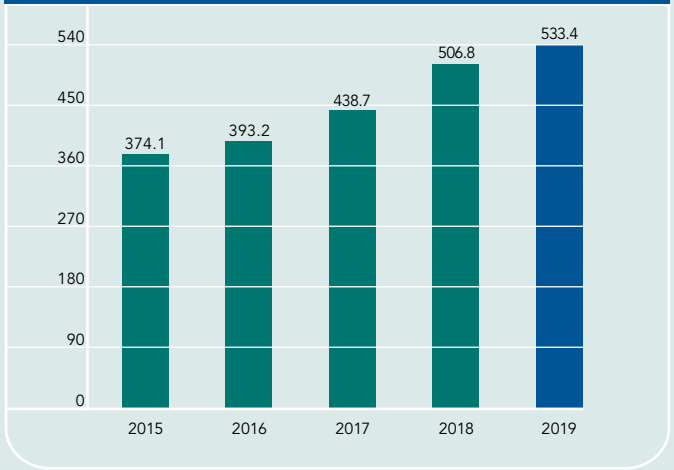
Proposed appropriation of profit

The statement of profit or loss indicates a net result of € 8,518,000 for 2019.

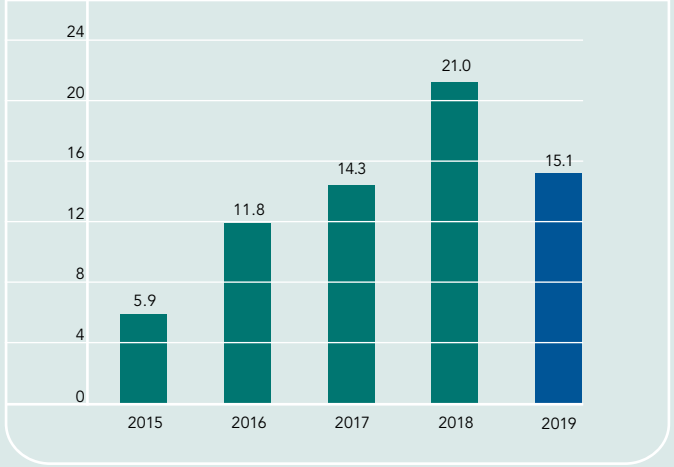
The Board of Directors proposes that the net profit be added to the retained earnings. The Board of Directors also proposes that a dividend of € 0.28 per share be distributed for the 2019 financial year. The dividend will be paid in cash.

Key figures and five-year summary 2015 – 2019

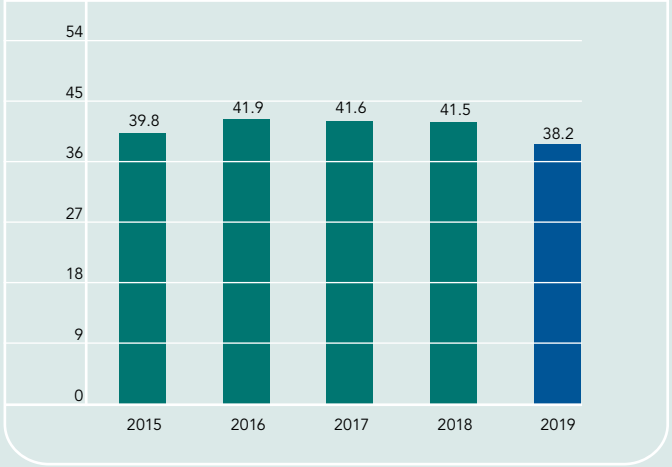
Revenue in millions of euros



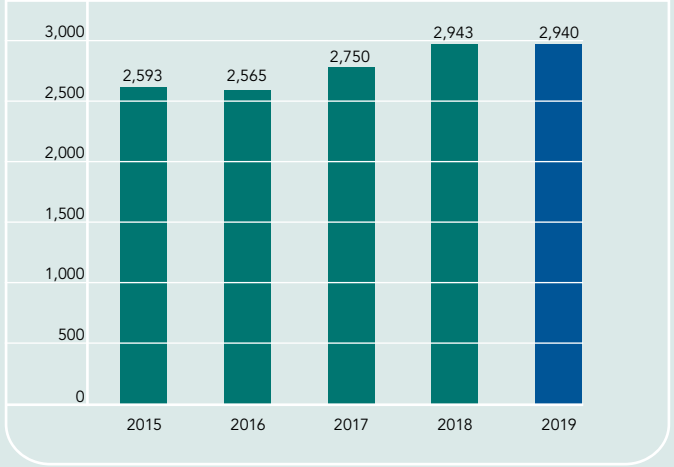
Operating profit in millions of euro's



Solvency Equity as % of the balance sheet total



Average number of employees



Amounts in millions of euros, unless otherwise stated	2019	2018*	2017	2016	2015
Revenue	533.4	506.8	438.7	393.2	374.1
Gross margin	196.6	195.2	171.3	153.8	147.5
Operating result exclusive of exceptional income and costs	16.0	22.0	15.3	12.7	10.1
Operating result	15.1	21.0	14.3	11.8	5.9
Net profit exclusive of extraordinary income and exceptional costs	9.1	15.1	10.0	9.2	6.2
Net profit	8.5	14.4	9.9	9.7	3.2
Net cash flow**	16.4	–4.5	–3.4	2.6	2.9
Equity	106.1	101.6	84.4	78.9	70.6
Guaranteed capital***	106.1	102.7	89.3	83.9	75.5
Balance sheet total	277.7	245.0	204.4	188.1	177.1
Capitalised goodwill	2.8	2.8	2.8	2.8	2.8
Interest coverage ratio****	5.4	11.2	10.2	6.8	4.9
Net Debt/EBITDA ratio****	2.2	1.4	1.6	1.5	1.9
Solvency					
Equity as a % of the balance sheet total	38.2	41.5	41.6	41.9	39.8
Guaranteed capital as a % of the balance sheet total	38.2	41.9	44.0	44.6	42.6
Profitability ratios**					
Return on equity	8.6	14.9	11.8	11.7	8.8
Operating result as a % of revenue	3.0	4.3	3.5	3.2	2.7
Net profit as a % of revenue	1.7	3.0	2.3	2.3	1.7
Operating result as a % of invested capital	11.5	21.0	16.5	14.7	11.7

Amounts in millions of euros, unless otherwise stated	2019	2018*	2017	2016	2015
Figures per employee					
Average number of employees (in FTEs)	2,940	2,943	2,750	2,565	2,593
Revenue per employee (x 1,000)	181	172	160	153	144
Gross margin per employee (x 1,000)	66.9	66.3	62.3	60.0	56.9
Figures per ordinary share, in euros (based on the number of shares at year-end)					
Net profit	0.70	1.20	0.86	0.85	0.28
Net profit****	0.75	1.26	0.87	0.80	0.55
Equity	8.73	8.50	7.35	6.89	6.19
Net cash flow	1.35	–0.38	–0.30	0.23	0.25
Dividend	0.28	0.48	0.35	0.34	0.11
Dividend as a % of net profit	40.0	40.0	40.0	40.0	40.0
Number of shares at year-end x 1,000	12,150	11,958	11,481	11,459	11,401
Highest price	14.00	18.60	14.21	10.21	10.45
Lowest price	9.30	9.88	9.20	6.65	6.78
Price as at 31 December	9.96	10.10	13.65	9.28	7.50

* The Group initially adopted IFRS 16 with effect from 1 January 2019, using the modified retrospective approach, which means that the cumulative effect of the initial adoption of IFRS 16 has been recognised as an adjustment to the opening balance sheet, with no restatement of comparative information.

** Net cash flow means cash flow from operating activities, plus cash flow from investing activities.

*** Including subordinated borrowings

**** Key indicators are based on the figures excluding exceptional income and costs.

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Neways Electronics International N.V. is listed on the Euronext Amsterdam stock exchange

COLOPHON

DESIGN AND PRODUCTION
C&F Report
Amsterdam

PHOTOGRAPHY
C&F Report (Christiaan Krop)

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