ANNUAL REPORT 2017

NEWAYS®

PRODUCT LIFECYCLE MANAGEMENT

CONTENTS

This annual report is a translation of the Dutch annual report. In cases where textual inconsistencies between the Dutch and the English version occur the Dutch version will prevail.

Huub van der Vrande
CEO

Neways raised the bar on all fronts in 2017: from strengthening and extending customer relationships and achieving robust order and revenue growth to enhancing cooperation within the organisation.

The revenue growth we achieved exceeded our expectations. On the back of global economic growth, Neways is also able to benefit from sector- specific trends in its five designated strategically important growth sectors: automotive, semiconductor, industrial, medical and defence. This is reflected in growing demand for products of Original Equipment Manufacturers (OEMs) as well as growing numbers of electronic components in end products.

The growth achieved in 2017 clearly demonstrates the success of Neways' proposition as product lifecycle partner. It also highlights how much we grow in step with customers. Despite challenges including a tight labour market for technically qualified staff and scarcity of components for our products, we were successful in delivering operational excellence to our customers. The challenges posed by this scarcity both in the market for components and the labour market will continue in 2018.

Neways has grown significantly in some sectors. Despite the pressure this growth entails and the demands it imposes on our employees, we continued to focus on the major points requiring improvement. The fruits of this improvement programme have led to a first step-up in earnings that we will continue in the years ahead.

The successful introduction of the improvement programme at all European Neways operating companies has laid the foundation for a more efficient, responsive organisation. We are working with a closer focus on performance and customers and hold each other accountable where there is room for improvement. Doing things better all the time, delivering on what you promise has been embedded as a major building block in our Neways culture in the past few years. At the same time, we retain the key elements that make Neways such a special company. Despite our size and international footprint, the we-culture of One Neways continues to be strongly felt.

Progressing the implementation of our Group-wide strategy is of great importance for spotlighting the added value provided by Neways and for continued growth. This is only possible with in-depth knowledge and understanding of our customers and the markets in which they operate. We are ceaselessly aware of and alert to what moves our customers. It is not for nothing that we are increasingly approached at an early stage and engaged in the development of new electronic components and systems for our customers.

Despite the steps taken, much remains to be improved in 2018. Given the variety of customers and converging supply chains, it is imperative for us to continually optimise and improve the logistics process. The inventory management and purchasing processes in particular need to be improved. For a full-service provider such as Neways, aiming to make life easier for customers during the entire lifecycle of a product, those activities must be carried out at the very highest level of quality. To increase control of the supply chain, we seek to establish contact early on in the product development phase between our component management group and the customer's development division. This contributes to tighter inventory control and a more efficient design of our logistic processes. This will continue to have the full attention of the Board of Directors in 2018.

The past year was busy and eventful in all respects and as CEO of Neways I am proud of what we achieved together. I am pleased to express my appreciation for the commitment and enthusiasm of all our employees. The Board of Directors will continue to do its utmost in 2018 to keep on inspiring and motivating our employees to maximise their own performance and utilise the full potential of our company. I have every confidence that they will.

Company profile

Neways Electronics International NV (Neways) is an international one-stop provider for product life cycle management of advanced and integrated electronic components and applications and (box-build) control systems. We serve professional and industrial growth markets and support global players in the manufacturing industry and their first-tier suppliers in pursuing optimal total cost of ownership.

We are among Europe's top ten EMS companies. The principal market sectors for our activities are semiconductor, automotive, industrial, medical and defence.

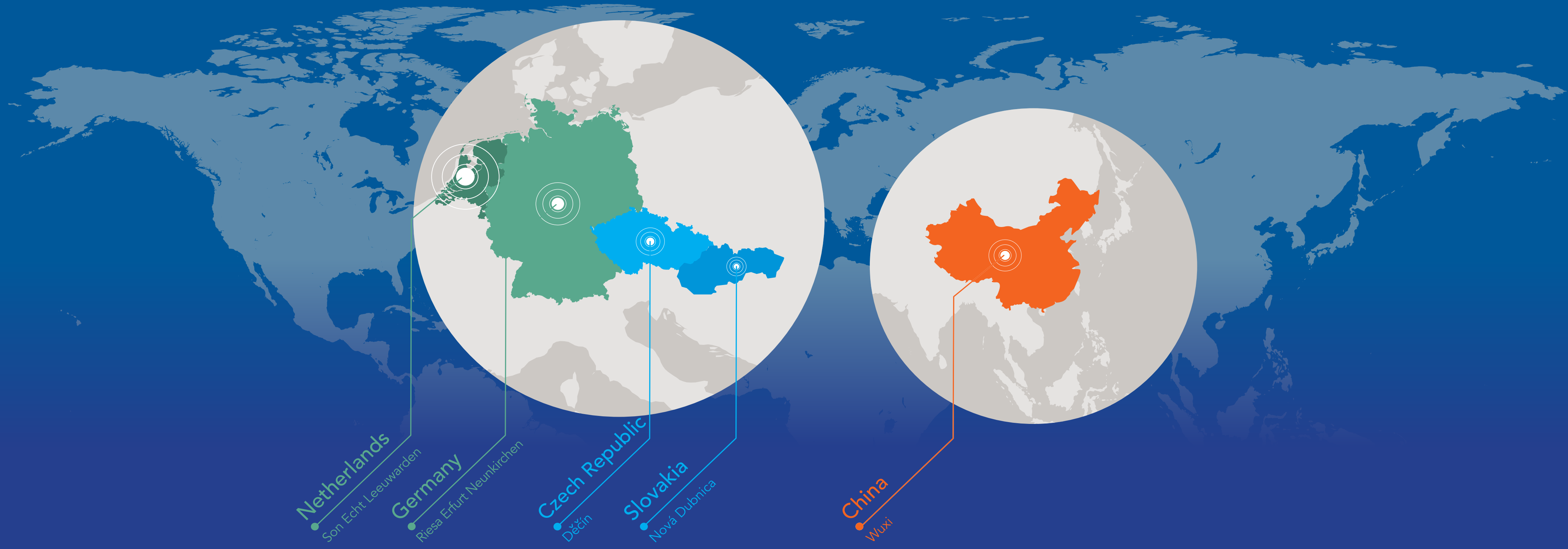
We have thirteen operating companies across Europe and Asia. Our head office is located in the Science Park Eindhoven. Neways is part of Brainport, a top technology cluster in and around Eindhoven, which is also home to globally leading manufacturing businesses such as ASML, NXP, Thermo Fischer and Philips. Local authorities and technical universities and universities of applied sciences work closely with each other within Brainport to maintain and extend the internationally leading competitive position of the region in high-tech and innovation.

Neways achieved net revenue of € 438.7 million in 2017 with around 2,750 employees. Neways is listed on Euronext Amsterdam.

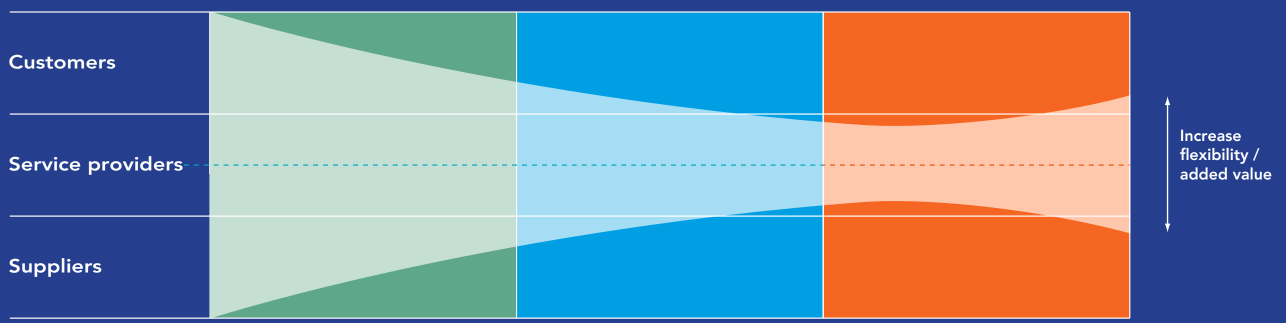
Our mission

In close collaboration with customers, Neways offers customised solutions over the full lifecycle of PCBAs, cables, micro-electronics and box-build applications, always aiming for optimum cost of ownership.

International footprint and business model



Western Europe		Eastern Europe		Asia	
Number of employees	2,072	Number of employees	601	Number of employees	119



Business model

Our operations cover the full lifecycle of professional and advanced electronics in the business to business segment. Our customers are world-scale Original Equipment Manufacturers (OEMs) and their first-tier suppliers.

We operate in a decisive role for our customers, from development and production to repairs and service of electronic components, applications and fully integrated control systems.

Neways is active worldwide and has full-scale operations in five countries: the Netherlands, Germany, the Czech Republic, Slovakia and China. In addition, Neways made a start in 2017 on establishing engineering activities in the USA. No operations took place there yet in 2017. Our operating companies are often in strategic locations, close to our customers, and are optimally positioned to facilitate close cooperation.

WESTERN EUROPE

In Western Europe, our nine operating companies promote the Neways strategy built on being a one-stop-provider and carry out the most knowledge-intensive activities of the Group. We combine technological expertise with high-quality batch production of complex electronic components and ready-made systems. Neways has activities in the principal industrial and technological regions of the Netherlands and Germany.

Neways has a strong position in the German and Dutch EMS market as well as in the semiconductor and automotive sectors. Extensive cooperation between the operating companies is essential and provides a platform for synergies and new initiatives for product, process and overall quality improvements. In the long term, optimised cooperation leads to substantial efficiency benefits.

EASTERN EUROPE

In Slovakia and the Czech Republic, three operating companies are engaged in batch production of electronic components and systems. Products that are already further advanced in the lifecycle are – if this benefits the total cost of ownership for our customers – produced in facilities where Neways has achieved significant cost savings and established an optimal production process. Neways made substantial investments in the past years in the capacity and modernisation of the Eastern European production facilities. Neways can thereby comply with current and future quality standards and has laid a foundation for future growth of activities and strengthening of the market position in Eastern Europe.

ASIA

Neways is active in China with one operating company engaged in assembling PCBs and building devices. Our establishment in China works mainly for our European customers and operating companies in the Netherlands and Germany but also increasingly provides operational support to customers from Asia. Components and systems are produced cost-efficiently in China. The production facilities are state-of-the-art and equipped with the latest SMD production lines (surface-mounted devices).

Besides providing a cost-effective production facility, the Chinese operating company also forms a solid basis for future expansion. Neways is already engaged in development activities on a small but growing scale in Asia, partly with a view to local-for-local services. The Chinese activities play a central role in expanding component purchasing in the local Chinese market.

Overview of activities per operating company

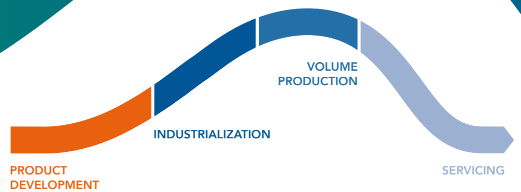
	PCB/product assembly	Engineering/ prototyping	Ready-made systems	Cable production/ assembly	Development/production of micro-electronics	Development
Neways Advanced Applications Son	●	●	●			
Neways Cable & Wire Solutions Echt		●		●		
Neways Industrial Systems Son	●	●	●			
Neways Leeuwarden	●	●				
Neways Micro Electronics Echt		●			●	
Neways Technologies Son - Erfurt - Enschede - Echt						●
Neways Neunkirchen	●	●				
Neways Electronics Riesa	●	●	●			
Neways Slovakia Nova Dúbnica	●		●	●		
Neways Electronics Děčín	●					
Neways Wuxi Wuxi	●					

Product development

"Neways is involved as development partner in increasingly large and complex issues. The developers of Neways have technological expertise in a wide range of sectors and help customers to map and resolve technological problems. This ranges from orders from the automotive industry to the semiconductor industry.

Because, as a development partner, you handle a crucial part of the product lifecycle, a close relationship with your customer is very important. Especially because no actual product is ready yet. This calls for trust and clear communication.

Not only does our customer want to be informed on progress every day, but you also have to keep each other alert continually, challenge each other and get each other on board in the important processes. Each and every day we ask ourselves as a team and individually whether we are doing the right things. Every day is different."



PRODUCT LIFECYCLE MANAGEMENT

PASCAL VAN KESTEREN
MANAGER SALES
NEWAYS TECHNOLOGIES

Key figures and performance indicators

Indicator	2017	compared with 2016
Revenue (€ mln.)	438.7	+11.6%
Adjusted operating profit* (€ mln.)	15.3	+20.5%
Adjusted net profit* (€ mln.)	10.0	+8.7%
Net cash flow** (€ mln.)	–3.4	–231.7%
Equity (€ mln.)	85.0	+7.7%
Interest coverage ratio	10.2	+50.0%

* Excluding exceptional income and expense (see page 21).

** Net cash flow is: cash flow from operating activities, plus cash flow from investing activities.

Key figures and performance indicators

Net Debt/ EBITDA ratio

2017

1.6

compared with 2016

+**6.7**%

Equity solvency as % of the balance sheet total

2017

41.6

compared with 2016

–**0.9**%

Adjusted net profit per share*

2017

0.87

compared with 2016

+**8.7**%

Total number of employees on a full-time basis

2017

2,750

compared with 2016

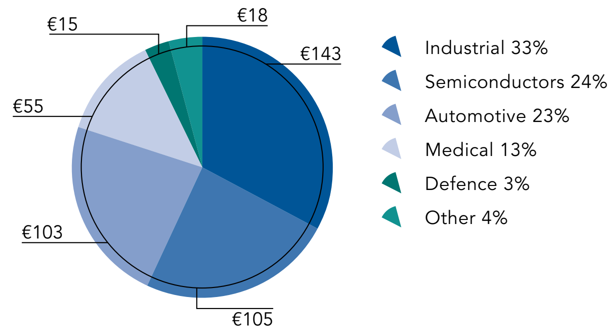
+**7.2**%

* Excluding exceptional income and expense (see page 21).

** Net cash flow is: cash flow from operating activities, plus cash flow from investing activities.

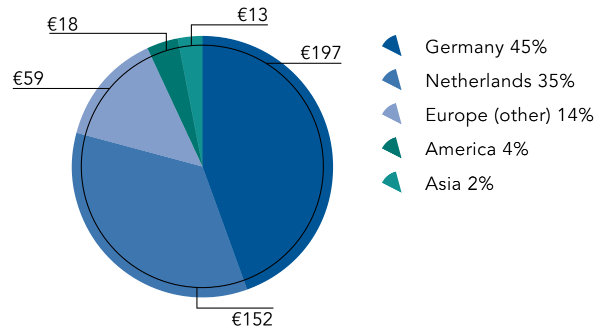
Distribution of revenue by market sector

in millions of euros



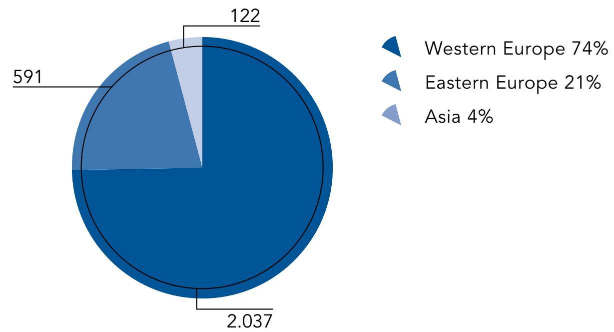
Geographical distribution of revenue

in millions of euros



Geographical spread of employees

on a full-time basis



e-Mobility

The next few years will be decisive for electric vehicles. The expectation is that by 2024 the total cost of ownership will be roughly the same for electric cars and cars with combustion engines.

According to other estimates, only electric cars will be manufactured in Europe by 2035.[1] Lower costs of electric vehicles, increased capacity of car batteries and availability of charging points have already led to growing popularity for electric cars in the past year. In addition, CO_2 emissions will need to be reduced in the years ahead in line with international agreements.

Neways has an important role in these developments. Together with manufacturers of electric cars, we look under the hood to ensure that the efficiency of electric engines matches that of traditional cars in terms of costs and travel ranges. We also manufacture components for charging cables and make sure they comply with all strict safety standards.

[1] *Breakthrough of electric vehicle threatens European automotive industry*, ING Economics Department, July 2017.

Markets and trends

Economic growth is picking up throughout the world: global GDP rose by 3.0% in 2017 and is estimated to reach 3.1% in 2018[1]. In addition to economic growth in a general sense, Neways is also benefiting from sector-specific trends in the five growth sectors that are strategically important to it: automotive, semiconductor, industrial, medical and defence. This means that not only is demand for products from Original Equipment Manufacturers (OEMs) growing but so is the number of electronic components in end products. The automotive sector illustrates this: demand for electric cars overall is growing, as is the number of electric components in petrol- and diesel-powered cars.

Despite broad economic growth, OEMs, the customers of Neways, are under pressure: they have to shorten the time to market themselves, reduce their prices and adapt their products per market to end users' wishes. As a consequence, these parties impose tougher requirements on their suppliers and partners. OEMs rely on companies such as Neways to possess the required knowledge, skills and flexibility and to provide support, as partners, in facing these market challenges.

Growth sectors

The five sectors in which Neways operates are benefiting not just from general economic growth but also from specific trends, such as the growing number of electronic components in industrial and consumer goods. Thus the wider acceptance of the Internet of Things (IoT) is leading to increased use of smart devices that are in contact with each other and the internet, by both consumers and industry. Although IoT is still a comparatively recent phenomenon, its worldwide economic impact by 2025 is estimated at between $3.9 trillion and $11.1 trillion a year[2].

EMS market sectors

- **Communication**
- **Automotive**
- **Semiconductors**
- **Medical**
- **Computer**
- **(Sustainable) Energy**
- **Industrial**
- **Aerospace & Defence**

Neways focus growth sectors

- **Automotive**
- **Semiconductors**
- **Medical**
- **Industrial**
- **Defence**

Specialist niche player

Markets	Industrial and professional growth sector
Customer base	Primarily West-European OEMs
Key presence	Industrial & technology regions
Relationship	First-tier OEM partners
Scope	Full product life cycle management
Added value	High
Batch production	Low and medium to high volume series
Complexity of assembly	Medium to high mix

1 *www.worldbank.org*

2 *Unlocking the potential of the Internet of Things, McKinsey Global Institute, July 2015.*

- The semiconductor sector is expected to profit significantly from this growth. In combination with broader economic growth towards electronics and electronic applications, this development is expected to lead to estimated average growth of 7.7% in the semiconductor sector until 2024. The size of the worldwide semiconductor market is estimated to reach $831.5 billion by 2024[3]. However, this sector is highly cyclical and hence dependent on cyclical fluctuations.
- A clear trend is manifest in the medical sector towards progressively smaller medical devices, such as virtually invisible hearing aids, medical applications for wearables and home healthcare and new equipment for the diagnosis and treatment of patients.
- Defence systems comprise more and more electronics and governments are expected to increase their spending on defence in Europe.
- In the automotive sector, the increasing capacity and decreasing costs of lithium batteries, combined with the growth of the required infrastructure, will cause a step change. By 2024, the total cost of ownership of a 60 kWh Volkswagen Golf is expected to be at the same level as that of a Volkswagen Golf with a combustion engine. The expectation that by 2035, electric cars only will be available appears to be becoming increasingly realistic[4]. The rapid development of electric transport is reflected, for instance, in Volvo's announcement that from 2019 it will only launch electric or hybrid cars, and in the Chinese government regulation that by 2025, one in every five cars in China must be powered by an alternative fuel.

Market challenges

- **Lower prices due to globalisation and innovation**
- **Increasing complexity of the supply chain**
- **Progressively smaller components and shorter product life cycles**
- **Fluctuations in demand owing to economic volatility and cyclicity**
- **Greater focus on sustainability and responsibility**

Greater need for agility and support its customers

OEMs

More outsourcing to trusted partners who add value

Decisive qualities

- **Technical expertise**
- **Product life cycle management**
- **Systems integration expertise**
- **Reliable quality and delivery**
- **Supply chain management support**
- **Flexible planning and production**
- **Short lines and open communication**
- **Close to market and customer**
- **Compliant with regulations and standards**
- **Traceability of products**
- **Capacity to share risk and invest jointly**

Expertise/competencies of Neways

[3] *Global Semiconductor Market Forecast, 2017 - 2024.*

[4] *Breakthrough of electric vehicle threatens European automotive industry, ING Economics Department, July 2017.*

Challenges

The challenges facing OEMs consist in part in pricing pressure due to growing competition, globalisation and innovation. Progressive miniaturisation is making parts of technical devices progressively smaller and more compact while retaining their functionality. Product lifecycles are becoming shorter due to the pace of innovation while supply chain complexity is increasing as a result of the greater functionality of devices. Liability is likewise increasing due to regulations on topics including sustainability and safety.

Companies such as Neways can support OEMs by becoming involved at an earlier stage in the development of products to shorten the *time to market* and increase production efficiency. Additionally, OEMs can benefit from specific knowledge that specialised companies have built up in a sector. We are responding to this development by focusing specialist knowledge in our five strategic growth sectors. There is an increasing awareness among OEMs that it is better for them to target lower total cost of ownership of products rather than just the lowest cost of acquisition. This will enable them to offer their customers a better price in the long term.

Lastly, production processes and global supply chains are growing ever more complex. OEMs in partnerships with EMS companies are asking them to deploy their logistics expertise and guarantee the sustainability of components. Those challenges for OEMs represent opportunities for Neways but do underscore how entering into genuine partnerships with customers is crucial for growth.

EMS market composition and competitive playing field

The global EMS market is highly concentrated: the top ten global players, including FoxConn, Pegatron, Quanta, Flextronics and Jabil Circuit, jointly represent around 60% of the market. The rest of the market is highly fragmented. The expectation is that consolidation will take place at the lower end of the market in particular. Scale is becoming increasingly important and smaller players are unable to meet the shift in demand from OEMs and the requirements they apply for partners. The size of the global EMS market is estimated at over € 200 billion on an annual basis but estimates and views on what does and does not form part of the market diverge widely.[5]

Neways is among Europe's top ten EMS companies, which makes it a medium-sized international player. The European EMS market in which Neways is primarily active has an estimated size of more than € 25 billion on an annual basis. The European market is also highly fragmented. In Europe alone, more than a thousand EMS players are active, including global players as well as many small players. Fewer than one hundred companies generate around 80% of the sector's revenue.

Growth of local-for-local

A clearly visible trend, lastly, is the return of production from China in particular to Western and Eastern Europe. Given rising wages in China, the cost benefits are increasingly offset by higher costs of transportation of components and products, production quality issues and the challenges entailed by managing operations from afar. At the same time, China is growing as a sales market. In the wake of increasing prosperity, demand for electronic products in the sectors in which Neways operates is growing there too. Neways is pursuing a local-for-local approach in China: more is produced in local production facilities for Neways' Chinese customers.

[5] *The European Electronic Manufacturing Services Industry, 2015-2010. A Strategic Study of the European EMS Industry,* 2017 edition, Reed Electronics Research.

SWOT analysis

Strengths

- In-house technical design and engineering capacity
- Full service product life cycle management
- Focus on growth sectors and product-market combinations
- Scale
- Spread of activities across market sectors
- Proximity to market and customers
- Spread of production capacity between Western Europe, Eastern Europe and China
- Anchored by first-tier long-term partnerships
- Access to key officials at customers
- Top 10 player with leading customers

Weaknesses

- Take product responsibility
- Agility of the Group
- Degree of unity of the Group
- Suboptimal design of work processes and ICT infrastructure

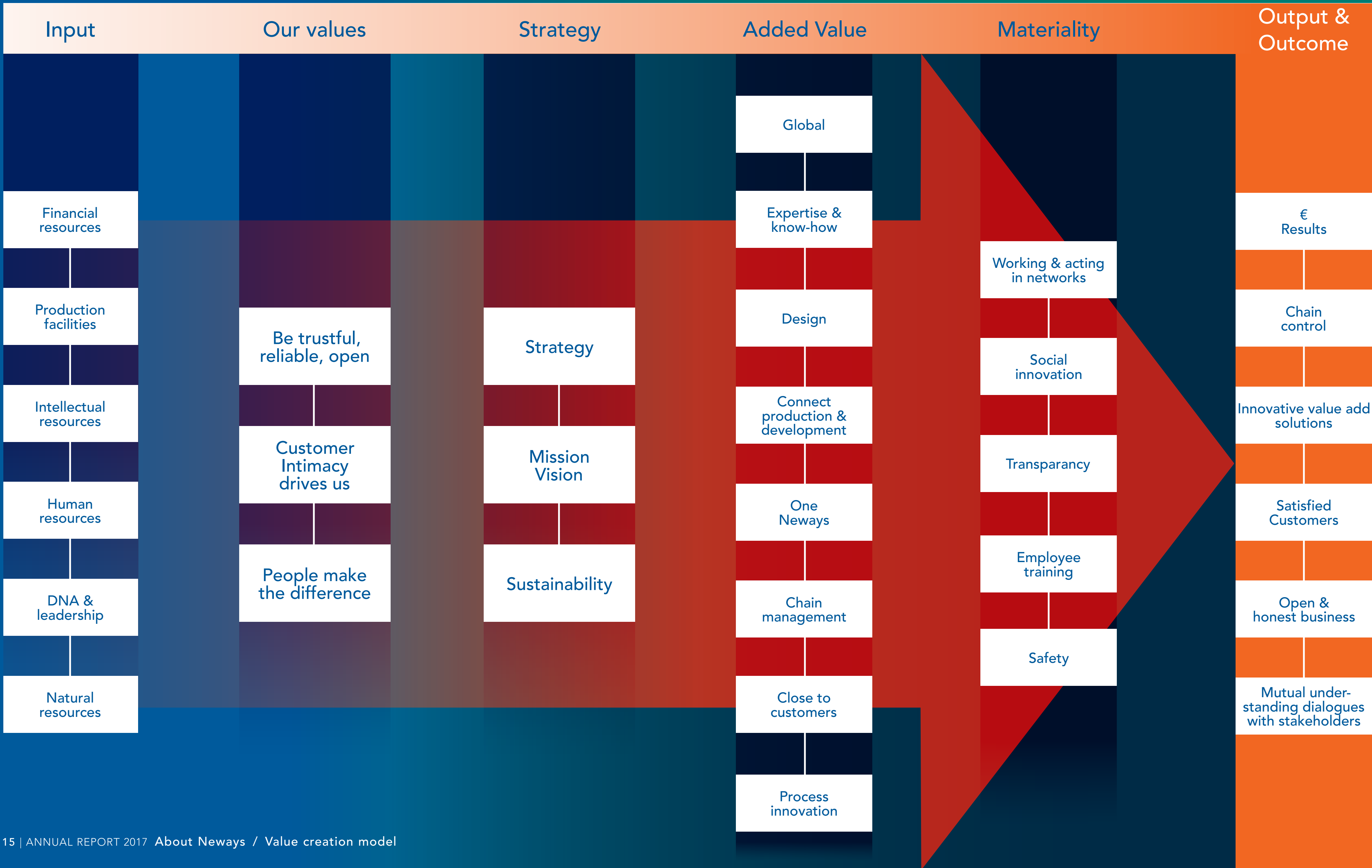
Opportunities

- Increasing number of intelligent devices
- More added electronics per device
- OEM partnerships on the basis of Design For Excellence
- Demand for product life cycle management and product/system integration
- Involvement in early stage of product planning
- Demand from OEMs for local-for-local business in China
- Consolidation at lower end of EMS market
- Harmonisation of business processes and ways of working
- Harnessing the Group's improvement potential

Threats

- More competition and new entrants owing to globalisation
- Shift in production technology from SMD to packaging
- Competition on price owing to 'commoditisation'
- High demand volatility and short-term plan adjustments
- Chain complexity
- Increasing liability

Value creation model



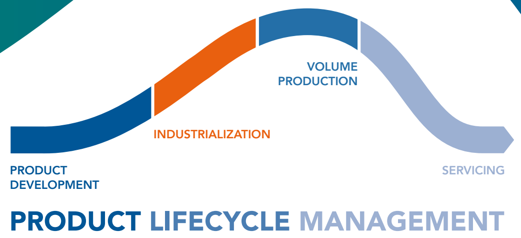
Industrialisation

"Developers have the expertise to develop products; engineers are experts on how to optimally assemble them.

Our engineers work in the industrialisation process to ensure that a good design can be profitably produced in an efficient manner, in large or small volumes.

We are involved in product industrialisation at an early stage, which makes it possible to take all the factors referred to above into account. We see not only what our own developers are doing but also what happens at the customers' location if they develop the product themselves. That is also part of the customer intimacy to which we aspire.

The industrialisation phase of the product lifecycle takes place at Neways locations in Western Europe. Pilot series of a product coming off the line may sometimes still be affected by teething problems. Only when a product is stable and benefits total cost of ownership will we transfer it to large-volume production, which takes place at our operating companies in Eastern Europe or China."



GIJS VAN DAM
CORPORATE HEAD OF ENGINEERING
NEWAYS ELECTRONICS INTERNATIONAL N.V.

Ambition and strategy

The ambition of Neways is to be the technology and product lifecycle partner for customers in a select number of sectors. A partner offering knowledge and adding value during the entire lifecycle of electronic products, from the development phase to the *end-of-life* notification. We focus on long-term partnerships with both customers and suppliers to profit optimally from notable growth markets.
The strategy for achieving those ambitions is based on in-depth knowledge of customer requirements, specialised technological expertise and continually advancing the professionalisation of the organisation.

We have designated the following tactical priorities to achieve our strategic ambition:

Selectively serving market sectors and product-market combinations
As a medium-sized player in the EMS market, Neways selectively targets five attractive sectors in which we are well-positioned to grow in step with our customers and offer clear added value. We focus on the automotive, semiconductor, medical, industrial and defence sectors. Our focus on a select number of sectors strengthens both our sector-specific knowledge and expertise and our position in relation to OEMs. In combination with our knowledge and experience in the field of production and process development, this expertise leads to a number of product-market combinations (PMCs) that offer additional potential. Within those PMCs, we work on product- and market-specific competencies to lift our development capabilities to a higher level. These PMCs are in areas of technology such as the following: sensors for high-precision steering systems, electronics for charging electric cars and electronic control systems for automated doors, for instance for lifts and trains.

Building long-term partnerships
Long-term partnerships with our customers and our suppliers are essential to achieving our strategic goals. Early-stage involvement in the development of products at our customers requires trust. These partnerships are also essential if we want to position ourselves as the partner of choice for OEMs and capitalise on global trends such as e-mobility and the Internet of Things. We want a long-term relationship characterised by partnership and mutual dependence with our suppliers as well. As much as possible, we opt for a single sourcing model, designating some suppliers as preferred suppliers. This not only gives us more certainty in the components market that is currently typified by scarcity but also facilitates improvement of our logistics processes.

Maximisation of customer value
As a partner that adds real value, Neways looks beyond the lowest price when purchasing a product and also considers total cost of ownership. Besides the cost of acquisition, this encompasses all costs from the time of purchase to the time of disposal, such as maintenance, repairs, upgrades and replacement costs. Offering customers the desired proposition requires Neways to maximise a product's value for customers across its entire lifecycle.

Areas of ambition

The parameters and tactical choices have been translated into specific areas of ambition which jointly shape the Neways strategy.

Strengthen competitive advantage
- Progress the development of technological knowledge and product lifecycle management competencies
- Be selective in sectors
- Retain and extend market and technological knowledge advantage in selected focus areas
- Improve logistic processes

Strengthen autonomous growth
- Strengthen technology and life cycle partnerships and improve utilisation of potential at existing customers
- Shift to the front of NPI (New Product Introductions) processes and expand advisory role
- Anticipate market and technological developments and identify opportunities for new PMCs
- Greater emphasis on marketing and acquisition of new customers and new business

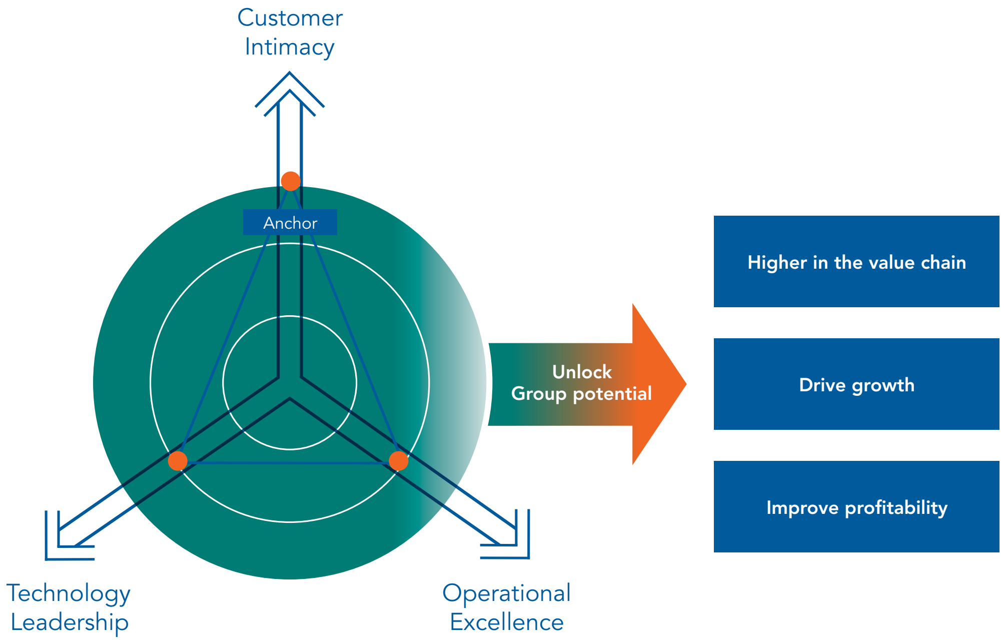
Increase operating leverage
- Simplify and optimise the supply chain
- Continual stringent cost containment

Standardise processes and streamline ways of working
- Greater emphasis on standardisation and uniformity in communication and way of working within the Group
- Tighter coordination and more central direction for crucial processes (supply chain, purchasing & logistics, ICT)
- Streamline QLTC (Quality, Logistics, Technology, Costs) processes

Optimise utilisation of production platform
- Better production allocation decisions (where to produce) and capacity utilisation throughout the Group
- Realisation of cost benefits by transfer of batch production orders to Eastern Europe and China where possible

Build local-for-local business in China
- Capitalise on growth of the Chinese economy and the local demand for electronics applications
- Expansion on the basis of existing relations of trust and partnerships in Western Europe and by means of local acquisition
- More directly serving OEM establishments in the Chinese technology region around Wuxi

Realisation of add-on acquisitions
- Add-on acquisitions should contribute to strengthening the positioning of Neways as one-stop provider and be complementary
- Potential acquisition candidates should have a size of several (tens of) millions of euros, be established in industrialised or technology-driven regions; have specific technological or engineering expertise; offer access to large new customers or themselves have no access to production facilities in China



Enabling conditions

The Group-wide improvement programme Up to the next level was introduced in 2015 to create the enabling conditions that are necessary for us to achieve our ambitions. The three pillars of this improvement programme, customer intimacy, technology leadership and operational excellence, lift the organisation of Neways to the required level. To support customers in overcoming challenges, our employees actively think through all phases of the product cycle in sync with our customers. Doing so requires a streamlined organisation and stimulating state-of-the-art technological knowledge.

Customer intimacy

A close relationship with our customers built on mutual trust anchors our business model and our ambition. Issues and challenges that customers in our sectors are faced with are implicit and dependent on the market in which they operate. Strengthening customer intimacy starts with knowledge of developments in those markets and a better understanding of what the market demands from our customers. We want customers to seek us out because of the added value we can offer during the entire lifecycle of a product. That enables us to provide more customer-specific solutions and more strongly anchor our role as long-term partner. The DNA change process and the associated training and schooling for sales and account managers play an important part in this connection.

Technology leadership

Specialised, market-leading technological expertise is necessary to be a strong long-term partner for our customers. Neways has made clear choices in terms of the topics on which we aim to be leading in the field of knowledge and expertise. To achieve this, Neways started establishing competence centres in 2017, looking at the existing knowledge within the Group and investing to expand that knowledge and share it more effectively throughout the Group. Engineers and commercial account managers work more intensively with each other to position the development proposition of Neways. At the same time, we select attractive product-market combinations within the sectors we serve. Our knowledge advantage in technology management enables us to offer clear added value and contribute to our customers' potential for innovation.

Operational excellence

Tightly coordinated and effectively designed work processes are crucial to adding value across the entire product lifecycle and being a reliable partner for our customers. We see more efficient supply chain design as one the principal challenges, given the characteristically high complexity of the EMS supply chain and the growing demand for complex box-build systems for which more material components need to be purchased. We therefore worked on improvements in purchasing in particular during 2017. The central purchasing department no longer only has a supporting role but has been given much more of a functional responsibility.

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

Business, operational and financial review

The foundation for a more efficient and agile Neways was laid in 2017. The strategic renewal, including the operational improvement initiatives, is producing results, which were clearly manifest in the past year: employees were quicker to hold each other accountable for their duties, we work with a tighter performance and customer focus, and the need to operate differently is manifestly understood at all operating companies and the holding company. Work processes have been further standardised and the entire Group is organised more uniformly.

Naturally, we will pursue further continual improvement utilising the three pillars supporting the multi-year, Group-wide improvement programme Up to the next level, introduced in 2015. The three pillars are customer intimacy, technology leadership and operational excellence.

The improvement programme has been introduced at all European operating companies. Extensive training, workshops and the involvement of all employees in the programme gave rise to the awareness that we could arrive at better solutions for customers through broader cooperation and knowledge sharing. We are now also seeing evidence that pursuing operational excellence enables us to deliver more added value by marrying our specialist knowledge of market sectors with our technology management expertise. Neways is increasingly approached and involved by both new and existing customers at an early stage in the development of new electronic components and systems.

The establishment of competence centres was one of the measures taken to enable engineers to work more efficiently. These centres consist of a group of engineers that possess unique, specialised knowledge. Additional investments are made in such centres to deepen as well as broaden that knowledge and roll it out to other operating companies as well. An example is provided by a platform that was developed for the knowledge area functional testing, which is now used by all relevant engineers within Neways.

Various initiatives were also launched at the individual operating companies. For instance, areas worked on by multifunctional teams included analysing waste, examining how losses in time, accuracy and materials can be minimised. This can be achieved by improving production lines, optimising logistic processes and adapting ways of working. Inventories are reduced as a result, both on the shop floor and in the warehouse inventories of finished products.

All initiatives, major and minor, deliver a more robust and more efficient organisation. The increase in orders and revenue in 2017 attests to how OEMs clearly recognise the added value of our proposition as fully-fledged development and lifecycle partner. Besides strong growth in order numbers, the average order size has also risen. Moreover, not only is the set of requirements and wishes of our customers growing, so too is demand complexity. This development calls for the possibility of rapid upscaling, for which efficient design of logistic and production processes is essential. The positive developments and the commitment of all our employees in the past year are reflected in the quality of our revenue as well as other areas. Until deep into the year 2016, the revenue increase was mainly attributable to the contribution from the automotive sector, to a large extent the activities of the acquired BuS Group. In 2017, by contrast, we also delivered good results in the semiconductor and defence sectors as well as in automotive.

The expansion of the production facility in Děčín (Czech Republic) announced in 2017 is another example of the growth experienced by Neways. This will more than double production facilities in 2019. The establishment in Wuxi (China) will also relocate to a more spacious, modern location in 2018 (see Highlights, pages 24 and 25).

Flexible labour is used to match the flexible demand from our customers. A flexible attitude and deployment of our employees is also promoted to adequately resolve capacity bottlenecks.

The operation of the new ERP system was extensively analysed and assessed in the past year. The results show that the ERP system largely meets the functional wishes and requirements. Following identification of the points needing to be improved, it was decided to implement processes and systems at other operating companies on this same basis.

To ensure this proceeds as smoothly as possible, the work processes of the various operating companies are mapped to facilitate clear choices between necessary (need-to-haves) and optional (nice-to-haves) functionalities.

The names of several organisations were changed in 2017. The activities of BuS Group were integrated in 2014. The name of the activities located in Riesa (Germany) has been aligned as from 1 April 2017 with that of the other operating companies in the Neways Group and changed to Neways Electronics Riesa. The Czech activities at BuS Děčín will go forward under the name Neways Electronics Děčín.

Financial results

The following summary reconciles operating profit and net profit with normalised operating profit and normalised net profit.

€ million unless stated otherwise	2017	2016
Operating profit	14.3	11.8
Exceptional income and expense:		
Amortisation of BuS Purchase Price Allocation	1.0	0.9
Normalised operating profit	**15.3**	**12.7**
Net profit	9.9	9.7
Exceptional income and expense (after tax)	0.7	0.6
Tax asset relating to loss carryforwards	–0.6	–1.1
Normalised net profit	**10.0**	**9.2**

€ million unless stated otherwise	2017	2016	Δ
Net revenue	438.7	393.2	11.6%
Order book (as at end of December)	263.6	191.3	37.8%
Order intake (incl. intercompany revenue)	556.6	458.8	21.3%
Book-to-bill (ratio)	1.15	1.06	8.5%

Net revenue rose by 11.6% to € 438.7 million in 2017. We saw significant increases in activity levels and this was reflected in the order book, which grew 37.8% to € 263.6 million, from € 191.3 million at the end of December 2016. The book-to-bill-ratio was 1.15. The increase in the order book and the book-to-bill-ratio was largely attributable to increased orders in the semiconductor, automotive and industrial sectors.

Net revenue – by market sector

€ million unless stated otherwise	2017	2016	Δ
Industrial	143	143	0.0%
Semiconductor	105	73	43.8%
Automotive	103	97	6.2%
Medical	55	56	–1.8%
Defence	15	12	25.0%
Other	18	12	50.0%
Total	**439**	**393**	**11.7%**

The increase in net revenue was mainly due to higher revenue in the semiconductor and automotive sectors – the latter driven in part by e-mobility activities.

€ million unless stated otherwise	2017	2016	Δ
Gross margin	171.3	153.8	11.4%
Normalised operating profit	15.3	12.7	20.5%
Margin	**3.5%**	**3.2%**	

The gross margin was up 11.4% due to the higher net revenue. The growing demand for complex box-build systems entailed an increase in the quantity of materials components. Although this has an adverse effect on gross margin, it remained at the same level in relative terms. The materialisation of purchasing advantages as a result of the supplier programme delivered a positive contribution.

Operating costs rose by 10.6%, mainly due to the increased activity levels. Additional costs associated with changes in the organisation processes were compensated by improvements in operational execution. Normalised operating profit was up 20.5% to € 15.3 million, representing a margin of 3.5%. Operating profit including exceptional items increased 21.2% from € 11.8 million to € 14.3 million.

€ million unless stated otherwise	2017	2016	Δ
Financing costs (net)	1.6	2.1	–23.3%
Tax burden (excl. valuation of tax asset in Germany)	26.9%	11.7%	
Net profit	9.9	9.7	2.1%
Earnings per share (€)	0.86	0.85	1.2%
Dividend per share (€)	0.35	0.34	2.9%

Financing costs decreased by 23.3%, mainly due to more favourable terms, lower currency exchange differences and lower bank charges, which had included refinancing costs in 2016.

The tax burden, excl. valuation of the tax asset in Germany, was 26.9% in 2017, up from 11.7% in 2016. The tax burden in 2016 was significantly affected by a total of € 1.8 million in previously unrecognised deductible temporary differences in Germany. In 2017, the remaining € 0.6 million of these temporary differences was capitalised. Net profit and earnings per share accordingly increased by 2.1% and 1.2% respectively to € 9.9 million and € 0.86 per share, on the basis of 11,481,301 shares outstanding at year-end 2017.

The dividend proposal for 2017 is in line with the dividend policy and represents a pay-out ratio of 40% of net profit, to be taken in cash. The dividend of € 0.35 per share represents an increase of 2.9% compared with the dividend for the 2016 financial year of € 0.34 per share.

Financial position

€ million unless stated otherwise	2017	2016	Δ
Cash flow from operating activities	3.2	10.6	–69.9%
Capital expenditure	–6.6	–7.6	–13.2%

Cash flow from operating activities totalled € 3.2 million, down 69.9% mainly as a result of increasing working capital, caused by the substantially higher activity levels, partly offset by higher operating profit.

Net working capital increased to € 79.4 million at year-end 2017, compared with € 64.4 million at year-end 2016. Inventories and receivables increased due to the higher activity levels. Inventories measured in turnover days rose from 79 days at year-end 2016 to 80 days at year-end 2017. The number of outstanding receivable days was 36 days in 2017, compared with 38 days in 2016, mainly due to the high revenue level in the last months and the effective utilisation of supplier finance programmes. The increase in payables outstanding is directly related to the high level of activities.

Capital expenditure amounted to € 6.6 million (1.5% of net revenue). The Capex amount is understated because € 2.4 million is payable after the year-end, and as in 2016 it more or less matches the level of depreciation and amortisation. Investments mainly comprised replacement and expansion investments in materials and resources to facilitate growth. Return on capital employed was 16.5%, compared with 14.7% in 2016.

€ million unless stated otherwise	Year-end 2017	Year-end 2016
Net debt/EBITDA ratio	1.6	1.5
Interest coverage ratio	10.2	6.8
Solvency (based on guaranteed capital)	44.0%	44.6%

Net debt at year-end 2017 totalled € 37.2 million, an increase of 24.0% compared with year-end 2016, mainly due to an increase in the use of current account credit facilities. EBITDA for the last 12 months (LTM) rose by 17% to € 23.4 million, compared with € 20.0 million at year-end 2016. The net debt / EBITDA ratio was 1.6, a slight decrease compared with year-end 2016. Interest coverage was clearly improved, due to lower interest expense and higher profitability. Solvency was 44.0% at year-end 2017, compared with 44.6% at year-end 2016.

The option for extension of the refinancing of the Group agreed in 2016 by a further year was exercised in 2017. The facility accordingly expires on 31 October 2019.

Neways complied with the covenants at year-end 2017. LTM EBITDA reached € 23.4 million and thus comfortably satisfied the requirement of at least € 10 million. The guaranteed capital totalled € 89.9 million. The adjusted guaranteed capital (guaranteed capital less intangible assets and deferred tax assets) was € 73.8 million at year-end 2017. That is above the applicable requirement of € 55 million. The minimum requirement for 2018 and 2019 is also € 55 million.

Highlights 2017

Soccer day
In the summer, teams from the Netherlands and Germany played for the challenge trophy of the first Neways Teamspirit Soccer Tournament. This embodies Neways' conviction that team sports are an excellent way of fostering and facilitating cooperation between the various Neways locations. Neways therefore intends to hold this tournament on an annual basis.

ESCF
Neways joined the European Supply Chain Forum, a community of researchers, business and other experts in the field of supply chain management. As a member of this forum, Neways takes part in expert debates on fundamental changes in supply chain management.

Golfing day*
The annual golfing day at Best Golf was a huge success again. This event provides an opportunity for Neways employees and customers to get to know each other in an informal setting, which improves cooperation. It is also our way of thanking customers for their loyalty to and trust in Neways.

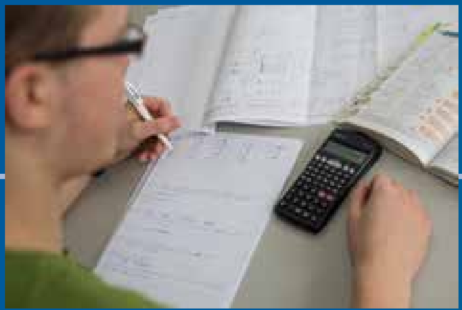
** Photography: Assié Fotografie*

Supplier day
The 2017 supplier day was hosted in the Philips Stadium in the Netherlands. Our suppliers were informed of the more stringent purchasing policy applied by Neways. Cooperation with them is a key ingredient for our operational excellence and achieving our strategic ambitions.

Relocation in China
The establishment in Wuxi (China) will move to a more spacious and modern location. This new facility offers more space for production and also shortens travel times for many employees. Neways is committed to local-for-local in China: components are manufactured in China for Chinese customers.

Best improvement award
The challenge trophy for the Best Improvement Team in 2017 was awarded to a team comprising members of the establishments in Neunkirchen and NME Echt. The jury's report highlighted how the German-Dutch team had boosted income for an entire product family through excellent cooperation and thorough analysis of the issues involved.

Riesa best training company
The German business magazine FOCUS MONEY has named Neways Riesa as the best training company in Germany in 2017. This award underscores the attractiveness of Neways as an employer in general and as an incubator for technical talent in particular.



Neways Lean programme
In June, Neways launched the Lean Green Belt course for engineers, which is an important step in the improvement programme. Using the techniques they develop during the course, engineers can achieve goals, such as better cooperation and less wastage, in a systematic manner.

Visit to Japan
Research and development undertaken by Neways (Microelectronics) led to a breakthrough this year in the field of miniaturisation of integrated electronics. Using lithography techniques enables a cost-efficient fourfold reduction of the size of integrated electronic circuits. The results were presented at the CICMT conference in Japan.

Customer days in Riesa and Eindhoven
Neways' customers were invited to Riesa (June) and Eindhoven (November) in 2017. The theme of both days was 'iEMS – Fit for the electronic future', and lectures were given on topics such as Design for Excellence and the Manufacturing Plant of the Future.

Stella Vie
Following a year of hard work, the Stella Vie was presented in June: a fully electric car with five square metres of solar panels. The Stella Vie is able to travel one thousand kilometres on a single fully charged battery, enough to drive from Eindhoven to the south of France. The Stella Vie has almost 10% less aerodynamic resistance than its predecessor, the Stella Lux.

New-build expansion in Děčín
The expansion of Neways' production facility in Děčín (Czech Republic) commenced in November 2017. The plant's surface area will be more than doubled in 2018 to meet the growing number of orders, from the automotive sector in particular.

Management agenda and outlook

The measures in our improvement programmes were taken on board and implemented effectively throughout the Neways organisation in 2017. We firmly believe this will make a positive contribution going forward. We will continue the ongoing actions – some of which we have refocused – on the agenda in 2018.

Driving forward this selection of actions enables us to gradually step up our added value. As a result, Neways is moving higher up in the value chain, and this is already clearly manifest in the increased production of components that Neways develops on order for customers. This will allow us to further increase the added value offered by Neways in the years ahead and ultimately reach an inherently higher level.

Growing competition, globalisation and innovation are challenges for our customers, the OEMs. Neways views this as an opportunity to provide even more support to its customers and make their life easier. As a knowledge partner working alongside our customers, we are well aware of developments in the specific markets in which they operate. Accordingly, customers can readily turn to us, benefiting from the added value we are able to offer across the entire product lifecycle. Partnering is an integral part of the path to future growth. As production processes and worldwide supply chains grow more complex, a partner able to leverage its logistics expertise and assure the sustainability of components is crucial for OEMs. We provide unique, customer-specific solutions based on specialist knowledge of technologies and markets. We offer extra value to customers and are consolidating our role as long-term partner.

The spearheads for Neways in 2017 included pursuing qualitative improvements in purchasing and logistics. Especially now that we have taken clear steps forward in stepping up efficiency in the organisation, we will maintain our focus on further streamlining and simplifying the processes.

Neways is excellently positioned to capitalise on current and future cyclical growth at OEMs. We will continue to invest in the robustness of the Group-wide organisation. With a well-filled order book with more long-term orders and accelerating revenue growth, we expect to achieve growth in net revenue and a higher normalised operating profit in 2018, barring unforeseen circumstances.

Roll-out of Neways DNA and lean leadership training programme in operating companies in Eastern Europe and China	Refocused positioning of operating companies and simplification of production within the Group	Identification and building of knowledge of new PMCs for higher added value solutions
Drive forward simplification and standardisation of the supply chain with a focus on materials purchasing and better supply risk management	Drive forward phased implementation at operating companies	Further strengthening of central alignment with QLTC processes and reducing the workload of operating companies
Expansion of local-for-local business in China by conversion of concrete leads into orders	Strengthening and expansion of long-term partnerships by applying customer intimacy principles	Further strengthening of engineering organisation by growth of the number of development architects and closer collaboration with operating companies

Organisation and employees

Neways operates in a dynamic and demanding industry and is one of Europe's top ten EMS companies. Our 2,792 employees, working in five different countries, make the difference. They have relevant specialised knowledge and technological expertise in the field of product life cycle management. But the critical success factor is behaviour. Supported by our employees' behavioural qualities, which are based on the core values formulated in 2015, we increased our responsiveness and are jointly lifting the organisation to a higher level.

The head office of Neways is located in the Science Park Eindhoven and is part of the top technology cluster Brainport in the region around Eindhoven. The holding company provides central strategic and financial management for the Group as a whole. It also recruited additional corporate managers in the fields of logistics, engineering, quality and legal affairs in the past two years. Besides a coordinating role they also support the operations directors and managers of the thirteen operating companies.

Attractive employer

Initiative and entrepreneurship are valued at Neways and employees are given room to contribute new ideas. Neways has a strong commitment to employer branding to be able offer both tech students and experienced professionals with a technical background a career in high-tech in complex and challenging positions. Market-based salaries and attractive terms and conditions of employment are a must. In combination with the organisation's dynamism, people-focus and short decision lines, this is a major reason for many new employees to choose Neways as their employer.

Growth and development

Its people make the difference for Neways. We can only make our organisation better by recruiting the right people and by creating an environment and culture that support ambitions and facilitate development. Neways believes it is important to invest in the future of its people and to make sure that employees can continue to develop, both as specialised professionals and more generally. Various training courses are aimed at safeguarding our (core) values, for instance in combination with themes such as safety, communication or management.

Proactive mentality	"We deal proactively with both internal and external customers"
Customer focus	"An agreement is a service"
Teamwork	"I know my customer"
Flexibility and creativeness	"I do not make mistakes"
Importance of keeping promises	"I always keep my promises"
Partnership	"I never miss a delivery"
Drive	"I work intelligently"

Team leaders play an important role in retaining and supporting talent. Annual talks are held with employees to review their interests and ambitions on an individual basis and the competencies required to achieve them. Areas that require development are identified and addressed on that basis.

We monitor developments continually and consider how we can improve our leadership within the organisation. We do this on the basis of a special training programme using the lean leadership model for all managers. Managers leading by example, fostering dialogue and actively communicating on the positive effects of desirable conduct are essential for this.

Efficient organisation

We launched the Neways DNA change process at the end of 2015 to increase the power and potential of our Group. We have succeeded since then in making the entire organisation more efficient and effective, by means of a detailed programme targeted at working methods and behaviour. Key elements include standardisation of work methods, improved coordination between different teams, departments and operating companies, and sharing constructive feedback. The programme has led to improved cooperation and more highly motivated fellow workers who demonstrate greater decisiveness and ambition in their daily work. The change in the way of working is and remains essential to achieving systematically improved Group performance and also contributes to a more closely integrated company.

The change process has been largely implemented; the roll-out for the operating company in China is scheduled for 2018.

Safety

Neways places great importance on a safe and pleasant working environment for all staff. The health and safety of our employees are of paramount importance. Strict safety rules apply on the shop floor and we devote extensive attention to good and clear work instructions, especially for new or temporary staff.

Sick leave management

In cases of sick leave, Neways focuses not just on the individual's duties and working conditions but also on personal or living circumstances that might result in a need for sick leave. We opt for an integral approach to sick leave management wherever possible. In the event of protracted sick leave, the employee's manager or immediate supervisor, the Human Resources department and the health & safety service stay in regular contact with the individual. Frequent contact between these parties and the employee concerned often paves the way for and accelerates the individual's return to the work process.

Integrity

Neways aims for an open, honest culture, valuing integrity. A reporting facility for potential breaches of integrity was introduced in 2016, the 'whistleblower policy'. This is based on the principle that any suspicion of an irregularity needs to be examined internally first with a view to eliminating it. The whistleblower policy is available within the organisation. No notifications were received under the policy in 2017. Any notifications will be followed up closely. The intention is to roll out the facility internationally in the near term.

Neways also has regulations in place on 'Undesirable behaviour'. Confidential advisers in the various operating companies have been trained to assist employees and advise them on reporting undesirable behaviour. Irregularities or undesirable treatment can be reported via the intranet at Neways, where the policy and the regulations referred to above are also available.

Employee participation

Employee participation is a further important element of the Neways corporate culture. We always aim for an open and transparent dialogue with the relevant employee participation bodies.

In the Netherlands and Germany, the employees of most of Neways' operating companies are organised into separate works councils. An employee participation structure exists at the Group level in the Netherlands, which is given formal shape in the CON (Centraal Overleg Neways, or the Neways central consultation body). The CON is made up of representatives of the various Dutch works councils.

On average the CON in the Netherlands meets around six times a year; the same also applies to the employee participation bodies at our German locations. Regular themes at the CON's meetings include market developments and the latest results. In the past year, particular attention was devoted to flexibilisation, the employee satisfaction survey, remuneration arrangements, the regulations on undesirable behaviour, the Working Conditions Act and the adjustment of pension insurance. Regular contact is maintained with trade unions, with consultations again taking place in 2017 both at the level of the central holding company and of the operating companies.

Increasing employee satisfaction

We carried out an employee satisfaction survey among all employees in the Netherlands for the first time in 2017. It gave us a thorough insight into the degree of satisfaction of our employees concerning matters such as their duties, working conditions, working atmosphere and corporate culture. The survey results, which showed that employees are generally satisfied about working at Neways and the engagement they feel with the organisation, will serve as a baseline measurement. The employee satisfaction survey will be periodically repeated to monitor and evaluate the impact of all aspects of our policy on the organisation and employees.

"Much has changed in the Neways organisation in recent years, and change is therefore the constant factor within Neways. With a holding company and thirteen operating companies in five countries, you are faced with a range of different cultures and customs. But there is clearly one Neways culture at Neways. Our organisation is people-focused, development and career support are priorities and there is a pleasant working atmosphere in which transparent and constructive feedback is valued.

Our organisation is characterised by a wide diversity in terms of qualifications, experience and age and other areas. We have colleagues aged from 18 to 68, and our staff often have long service records. While Neways has a past in the manufacturing industry, our current field of work extends across the entire lifecycle of professional and advanced electronics and our workforce increasingly consists of engineers and developers.

The world around us is becoming more complex, as is the field in which Neways operates. It is becoming more and more important for our organisation to standardise processes wherever possible. This is a critical success factor for continuing to sustainably develop the quality and growth of our activities. The results of the employee satisfaction survey carried out in 2017 indicate that we are on the right track but equally that there are still many challenges if we are to achieve our ambitions in the years ahead."

JOAN LEEUWENBURG
CORPORATE HEAD HR
NEWAYS ELECTRONICS INTERNATIONAL N.V.

Corporate Social Responsibility

Neways applies sustainable business practices, based on integrity and accountability. We continually seek to take account of the positive and negative effects of our operations, both within our own activities and in our supply chain. In 2017 we evaluated our sustainability policy and identified the themes and topics that are relevant for the future of Neways. On that basis, we formulated a strong and coherent sustainability vision that emphasises the impact that Neways has as a long-term partner of its customers on social and ecological aspects:

As lifecycle management partner we help our customers to develop reliable, future-oriented solutions.

For Neways, developing a sustainable organisation also means addressing environmental issues, social aspects and corporate social responsibility, and always doing so in conformity with relevant legal standards and best practices.

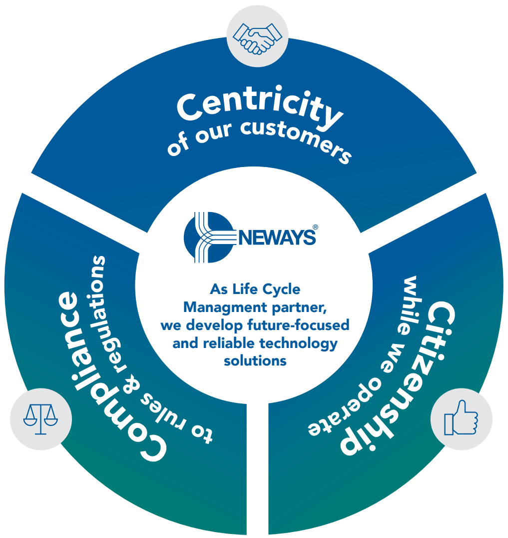
On the way towards one sustainability strategy

Until recently, the sustainability activities were carried out separately by each operating company, most of which perform measurements of various aspects, such as energy consumption, waste processing and diversity and work on improving these. Most operating companies are ISO 14001-certified. In 2017, Neways took the first steps to establish a quality management system at the Group level in the coming years, in addition to the systems that are already used by the individual operating companies.

Neways is aiming for central implementation of its sustainability strategy. To achieve this, sustainability has been included in the quality policy since 2016. Then we developed a sustainability framework and strategy in 2017 that are aligned with our general business priorities and were approved by our Board of Directors in December 2017. The framework is based on three pillars: Customer Centricity, Compliance and Citizenship.
These pillars comprise various focus areas relating to our own activities, our supply chain and the impact on our customers. These include, for instance, recruiting and developing talent, safety, the environment and supporting our customers in developing sustainable products and achieving sustainable ownership for the full lifecycle of a product.

As lifecycle management partner we help our customers to develop reliable, future-oriented solutions.

In 2018, we will work to advance the development of key focus areas, such as safety and sustainability of the supply chain. To improve our performance in those areas, we will extend our measurements in 2018 in the fields of safety, environment, talent development and sustainability of the supply chain. We will also determine the strategic priorities for the long term with the aid of a sustainability roadmap for 2019-2022. In connection with this roadmap, we will identify the most relevant Key Performance Indicators (KPIs), enabling us to monitor and measure our progress in achieving the strategic priorities of our sustainability policy.



Policy and results in 2017 by area of priority

Recruiting and developing talent

Neways gives paramount importance to its employees. Investing in our employees and supporting them in pursuing their ambitions improves the quality of our services. Neways offers employees training programmes that enable them to broaden their knowledge and expertise. In addition, Neways also believes that career and promotion opportunities and flexibility, with an appropriate remuneration policy, are important. This inherently keeps staff turnover low. By contrast, recruiting new employees, including recent graduates, has proved to be a challenge. We will therefore increasingly focus, in the years ahead, on external recognition as a preferred employer, for instance through a presence at job fairs at universities and other recruitment initiatives.

Safety

Neways attaches the utmost value to the safety and health of its employees. Neways recognises that it is of the highest importance for a leading company that always takes a responsible and ethical approach to minimise work-related injuries and illness and to provide a safe and healthy working environment. Neways further recognises that engagement and training of employees are vital to identifying and resolving health and safety issues at work.

To provide a safe working environment, each Neways location has its own coordinator who ensures that safety requirements are complied with. Safety policy is regularly evaluated by the management of the individual operating companies. Thus members of the Safety, Health, Welfare and Environment committee of the individual locations regularly carry out safety observation rounds in their facilities, in the presence of a representative of management and a member of the company emergency response team. These rounds are carried out in accordance with the specific guidelines of the company.

Other safety activities include regular company emergency response team training, first-aid training and periodic evacuation drills, to enable everyone to act adequately if required. No serious incidents occurred in 2017 in which injuries were suffered. This does not mean that no incidents occurred at all. We endeavour to raise the safety consciousness throughout our organisation by making it easier for our employees to report incidents and near-misses. This focus on apparently minor incidents is aimed at preventing more serious ones in the future. Neways will give priority to this topic in 2018 by professionalising the metrics for reporting the number of incidents and near-misses.

Ethics and integrity

Our policy is focused on fostering ethical behaviour within our own organisation. These rules of conduct, which are aligned with the principles of the UN Global Compact, have applied across the entire Neways organisation for many years and are documented in our ethics policy. This policy is part of the internal handbook that all employees are required to comply with. It states what we expect from our employees in connection with topics such as integrity and measures to combat bribery and corruption. The ethics policy is posted on the website of Neways and is in accordance with best practice provision II.1.3 of the Dutch Corporate Governance Code.

Environmental impact

Our operating companies have taken initiatives to measure energy consumption and waste streams. Various Neways operating companies have implemented environmental standards. Neways also attaches great importance to the environmental aspects of global corporate social responsibility. We have designated certain focus areas, including energy, water and materials consumption and waste streams. These will help us to measure our results in these areas; as 2018 will be the first year for which data are formally collected, these will also serve as a baseline. These parameters are inextricably linked to our business activities and can be found on the corporate website.

Neways takes various measures to limit the environmental risks that could arise from its activities. Thus Neways regularly screens its production-related emissions for hazardous substances. In addition, the small quantities of hazardous substances we work with are stored in a closed explosion-proof space, and the different substances are kept in separate leakproof containers. Neways does not require environmental permits to be able to carry out its business operations.

Managing risks and opportunities in our supply chain

As discussed in the section on Risk (page 46), Neways manages a worldwide, highly complex supply chain. The electronics supply chain is this complex owing to its extensive fragmentation, from mining companies and traders to the end customers of Neways, the Original Equipment Manufacturers (OEMs) and their first-tier suppliers.

We depend on a large number of suppliers for the materials required for the assembly of components and complete electronics systems. A number of these materials consist, at least partly, of minerals. Three specific types of minerals, also referred to as 3TG, may originate in the Democratic Republic of Congo or one of its neighbouring states. These minerals are called conflict minerals, as the income from sales of these minerals is used for financing armed conflict, human rights violations, environmental degradation and forced labour. Given our supply chain, this is also an inherent risk for Neways. Neways therefore operates in conformity with EU Regulation 2017/821 imposing supply chain due diligence obligations when importing materials, as well as all other relevant regulations, as set out by the Electronic Industry Citizenship Coalition (EICC) and the US Dodd-Frank Act. We are therefore aiming, with the support of a third party, for full transparency regarding the potential use of conflict minerals in our supply chain.

In 2018, our audit programme for suppliers will aid us in specifying our approach to human rights, corruption and bribery in the supply chain in more detail. In addition, the ethics policy of Neways will be extended as a step towards a full Neways code of conduct that will be made available on the corporate website. By increasing transparency in the chain, Neways demonstrates how sustainable the supply chain is and how it is continually working to improve it. In 2018, we want to continue enhancing this transparency in the supply chain through our audit programme for suppliers.

With the exception of certain sustainability risks higher up in the chain, Neways works with its customers lower down in the chain, a number of which have a strong focus on sustainability. As one of the three pillars of its sustainability policy, Neways helps its customers to achieve their sustainability goals, particularly sustainable ownership through the full lifecycle of a product. The automotive industry, a core market for Neways, provides a specific example. E-Mobility, or electric transport, is a key theme in this sector, and will ultimately contribute to lower GHG emissions and this helps to counteract climate change. Neways develops charging cables and PCBs as well as other products for electric cars. Neways ensures not only that the charging cables satisfy the required safety standards but also that they are increasingly energy efficient, that they contain components that maximise the lifecycle and that they are made from sustainable materials.

Training for technology and innovation

A large part of the sustainability strategy of Neways consists of pursuing corporate social responsibility and acting as a responsible member of the communities in which it operates. A specific example is presented by our aim to contribute to training in science, technology, engineering and mathematics (the STEM subjects), subjects that are crucially important for a successful economy in the 21st century. Neways considers this to be a form of corporate social responsibility in respect of the communities in which we are active, which simultaneously contributes to our ability to recruit new, technically qualified employees. Neways Electronics Riesa was declared the Best Training Company 2017 in Germany by the German magazine Focus Money. Several operating companies, including Neways Electronics Riesa, organise open days and workshops to inspire students and apprentices to pursue a career in technology and engineering. In 2017, Neways welcomed 68 interns and students with a divere range of levels of qualfications. Additionally, various operating companies offer intensive internal training courses for students. Many of these students and apprentices are offered employment contracts after completing their training.

Social initiatives

Besides our focus on stimulating technology studies we also want to contribute to technological research and development by universities and research institutes. Neways is thereby seeking to link actual practice with the academic world and at the same time to acquire an insight into the most recent scientific developments. The close collaboration to which this gives rise is greatly prized by Neways. In 2017 we participated in a number of such projects, including Stella Vie and E-parade.

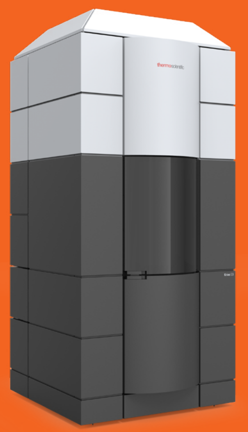
Stella Vie

As a proud, permanent partner, Neways again supported the Eindhoven Solar Team to prepare for the World Solar Challenge, a race that is held in Australia every other year. In June 2017, after a year of hard work, the Solar Team Eindhoven's new car was presented to the public: the Stella Vie. This 100% electric vehicle has 5 m^2 curved solar panels and is able to travel one thousand kilometres on a single battery charge. Stella Vie is also more aerodynamic than its predecessors.

E-parade

In 2017, Neways acted as sponsor for E-parade, an initiative of the Rotary Club Eindhoven Eeckaerde, with the aim of breaking the world record for the longest parade of electric vehicles. The money raised by the event goes to De Ontdekfabriek, which will use it to develop a curriculum enabling primary school children from underprivileged urban areas in the Eindhoven region to learn about technology and sustainability.

KRIOS microscope



Thermo Fischer Scientific is a leading company in the field of electron microscopy, a technology that makes it possible to see objects by 'firing' a bundle of electrons.

These microscopes provide far higher resolution than conventional light microscopes; for example, it is possible to see individual atoms with them.

The Krios is an electron microscope manufactured by Thermo Fischer Scientific, the most powerful and advanced electron microscope for commercial and scientific use.

The microscope has multiple biomedical applications, such as molecular-level research into causes of diseases.

The microscope's development advances continually in order to continue to meet the stringent requirements of science and industry. Neways contributes to this by developing electronics that can imitate natural conditions. This enables better observation of objects and their behaviour in specific environments. Neways also produces electronics that regulate pressure. This is necessary for all electron microscopes because electrons can only be used for microscopy if they are manipulated by varying pressure levels.

The Supervisory Board, the Board of Directors and management team

Situation at 31 December 2017

SUPERVISORY BOARD*

Henk Scheepers (1949) (m)	Chairman
René Penning de Vries (1954) (m)	Vice Chairman
Peter van Bommel (1957) (m)	

* No specific committees have been formed, given the size of the Supervisory Board.

Henk Scheepers (m)

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

René Penning de Vries (m)

- First appointed in 2013
- Present 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, Stichting Health Valley
- Figurehead ICT Top Team (EZ)
- Chairman of the Supervisory Board, St. Maartenskliniek
- Member of the Board of Directors. NWO-TTW

Peter van Bommel (m)

- First appointed in 2015
- Present appointment until 2019
- Nationality: Dutch
- Positions:
  CFO and member of the Board of Directors of ASM International N.V. (ASMI)
- Member of the Supervisory Board of KPN N.V., reappointed in 2016
- Chairman of the Audit Committee of KPN N.V. since 2016
- Non-executive director of ASMPT (Hong Kong) since 2011
- Director of Stichting Bernhoven since 2017
- Former CFO and member of the Board of Directors, NXP

BOARD OF DIRECTORS

Huub van der Vrande (1955) (m)	CEO
	Positions outside the organisation: Chairman, Stichting Social Community Zuid-Oost Brabant
Paul de Koning (1963) (m)	CFO
Adrie van Bragt (1965) (m)	COO

GROUP CONTROLLER

Peter Wisse (1959) (m)

MEMBERS OF THE NEWAYS MANAGEMENT TEAM

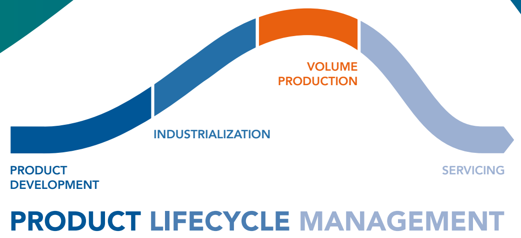
Michael Berger (1969) (m)	Managing Director Neways Neunkirchen
Wendy van der Bij-Hereijgers (1977) (v)	Manager Business Improvement & Internal Control
Peter Bouwsema (1968) (m)	Corporate Head of Supply Chain
Gijs van Dam (1975) (m)	Corporate Head of Engineering
Harrie van Houtum (1959) (m)	Corporate 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) (v)	Corporate Head of HR
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
Oliver Seifert (1969) (m)	Managing Director Neways Electronics Riesa
Menno Wolf (1970) (m)	Corporate Head of Procurement

Volume production

"When its development has been completed, a product can be produced in our plant in Slovakia. We have made substantial investments in this production facility in recent years, not just in the number of square metres and machines but also in technology. We can now produce larger volumes and also more complex products. We can handle the production process, including functional testing and shipping of products to customers.

We have 1,200 live products here, which means that we can expect a production order at any time. We manufacture 70% of these products in larger volumes. And some of the products we make here consist of as many as two to three thousand different components.

High-quality logistics and supply chain management are essential to providing the speed and flexibility today's customers require. That is a challenge that we enjoy facing every day."



PETER CIBULKA
DIVISION MANAGER
NEWAYS SLOVAKIA

Corporate Governance

Neways sets store by good corporate governance. The Board of Directors and the Supervisory Board are responsible for the corporate governance structure. Neways endorses the importance of an appropriate balance between the interests of its various stakeholders that is the foundation for the corporate policy.

General

Corporate governance is the structure and system of rules and procedures on the basis of which a company is managed and monitored.

Neways (Neways Electronics International NV) is a two-tier board company under Dutch law. Neways does not use any anti-takeover or control mechanisms in the form of a trust office or the issuance of depositary receipts for shares. Our corporate governance structure is based on Book 2 of the Netherlands Civil Code, the articles of association and the Dutch Corporate Governance Code. All associated relevant regulations and reports are available on the corporate website. The governance structure is periodically evaluated.

Corporate Governance statement

The corporate governance statement is a statement in accordance with Section 2a of the Dutch Decree Adopting Further Rules on the Contents of Annual Reports (Vaststellingsbesluit nadere voorschriften inhoud jaarverslag) ('the Decree'). For announcements in this statement within the meaning of Sections 3, 3a and 3b of the Decree, reference is made to the relevant passages in this annual report and the following is discussed:

- compliance with the Code's principles and best practice provisions (page 39);
- the principal features of the management and control system for the Group's financial reporting process, described in 'Risks and risk management (page 46);
- the performance of the shareholders' meeting and its principal powers, and shareholder rights and how they can be exercised (page 43 'General Meeting of Shareholders');
- The composition and performance of the Board of Directors (page 41 'Board of Directors');
- the composition and the performance of the Supervisory Board (page 42 'Supervisory Board' and page 54 'Report of the Supervisory Board');
- the rules for appointing and replacing members of the Board of Directors and the Supervisory Board (page 43 'Powers');
- the rules for amending the company's articles of association (page 43 'Powers');
- the powers of the Board of Directors relating to the possibility of issuing or repurchasing shares (page 43 'Powers');
- related-party transactions (note 22 to the Financial statements 'Information about related parties').

Compliance with the Dutch Corporate Governance Code

The revised Corporate Governance Code was published on 8 December 2016. Where necessary, we adapted our procedures and regulations in 2017. We comply with the principles and provisions as formulated in the updated Code where possible and relevant. The following is stated with regard to two specific best practice provisions in the Code:

Best practice 2.7.4

No transactions were conducted during the 2017 financial year that involved conflicts of interest of members of the Board of Directors or the Supervisory Board.

Best practice 2.7.5

All transactions between Neways and natural persons or legal entities holding ten percent or more of the shares in Neways were subject to contractual terms that are commonly applied in the sector.

Departures from the Dutch Corporate Governance Code

Owing to size of the Group we consider it to be in the interests of the company to depart from the best practice provisions in some respects, as described below on the basis of the 'comply or explain' principle:

- Members of the Board of Directors are appointed for open-ended periods. Periodic appointment as prescribed in the Code entails a risk for the implementation of the corporate policy, which is of a long-term nature (best practice 2.2.1).
- The term of office for members of the Supervisory Board is not subject to any maximum time limit. Neways believes that the Supervisory Board members' experience and their knowledge of the Group should dictate how long they stay in office. After each four-year term, and based on careful consideration, Supervisory Board members may be reappointed for a further four years (best practice 2.2.2).

- Prospective members of the Board of Directors and the Supervisory Board are selected with a view to a mixed composition in terms of age, experience, expertise, personality, gender and social background. At present the Board of Directors and the Supervisory Board lack diversity in terms of both male and female representation. However, diversity within Neways as a whole and among the various management teams is increasing. Neways has not defined a formal diversity policy (best practice 2.1.5 and 2.1.6).
- New members who are put forward for the Supervisory Board and the Board of Directors are selected based on experience, expertise and personality.
- No specific committees have been formed within the Supervisory Board (best practice 2.3.2). The role of the Audit committee is filled by the full Supervisory Board.
- Neways does not have any written regulations governing the possession of and transactions in securities in other listed companies by members of the Board of Directors and the Supervisory Board, as this is seen as the personal responsibility of the relevant members of the Board of Directors and the Supervisory Board (best practice 2.7.2). This situation is evaluated on an annual basis and changes will be made if necessary. The evaluation will also cover how and when the company will incorporate these rules in regulations.
- Upon publication of the interim and full-year results, Neways organises a meeting for analysts and financial media at which the Board of Directors discusses the results. These meetings are well-attended and well-received. In view of this positive reception, Neways decided that a meeting is preferable to a webcast (best practice 4.2.3). The presentations given by the Board of Directors are however available on the corporate website.

Internal audit function

A separate internal audit function was created with effect from 1 January 2017. The purpose of the internal audit function is to review and if necessary further strengthen the design and operating effectiveness of the internal risk management and control systems. The internal audit function can provide the Board of Directors with an objective assessment of the quality of and compliance with improvements implemented and standardisation of the business processes, thus making adjustments possible when and where necessary. Within Neways, the official charged with responsibility for internal audit contributes as an active adviser to improving the design of control systems by means of recommendations. The audit function has an independent position in the organisation and an open, direct line to the Supervisory Board.

Code of conduct

Neways has adopted an internal code of conduct. In representing Neways, employees are expected to perform their duties in accordance with the guidelines, standards and values as formulated in this document and within the frameworks prescribed by the law and other official provisions. The code of conduct is available on the corporate website.

Whistleblower policy

At Neways we set great store by an open, honest culture. Such a culture reduces the likelihood of abuses and irregularities. Remaining alert to indications remains important however. A whistleblower policy became effective as of 1 December 2016 to permit safe, systematic reporting of suspected abuses and irregularities. This facilitates reporting of irregularities by means of a clear and formal procedure. The whistleblower policy is based on the principle that any suspicion of an irregularity needs to be examined internally first with a view to eliminating the irregularity. Only if that is not possible or fails to lead to an improvement will an irregularity be reported externally.

Board of Directors

Duties
The Board of Directors of Neways consists of three members and is responsible for the strategy, central management and the performance of the Group. The members of the Board of Directors work closely with each other and alternating members of the Board of Directors visit the operating companies every two months. The Board of Directors receives detailed weekly and monthly progress reports. The Board of Directors is also responsible for compliance with all relevant laws and regulations and the effectiveness of the internal risk management and control system. The Board of Directors performs these duties under the supervision of the Supervisory Board. The Board of Directors provides all information sufficiently far in advance and provides whatever resources are necessary for the Supervisory Board to properly carry out its supervision duties. In performing its duties, the Board of Directors continually weighs up the interests of all its stakeholders in order to achieve the ambitions of Neways and the aim of long-term value creation. The Board of Directors evaluates its own performance on an annual basis, looking at both individual performance and performance of the Board of Directors as a whole.

Appointment
Members of the Board of Directors are appointed by the Supervisory Board for an open-ended period. The General Meeting of Shareholders is notified of all planned appointments. Members of the Board of Directors are not permitted to serve on more than two supervisory boards, nor may they be chairman of the supervisory board at any other company. For more information on the composition and relevant positions outside the group of the members of the Supervisory Board in 2017 see the section 'The Supervisory Board, the Board of Directors and the management team' in this annual report (page 36).

Suspension and dismissal
The Supervisory Board periodically reviews the performance of the members of the Board of Directors. The Supervisory Board has the authority to suspend or dismiss members of the Board of Directors. Members of the Board of Directors cannot be dismissed by the General Meeting of Shareholders directly.

Remuneration policy
Neways has a remuneration policy that is aimed at maximising long-term value creation for shareholders. The General Meeting of Shareholders approved the new remuneration policy in 2017; its text is also available on the corporate website.

Information on the remuneration of members of the Board of Directors in 2017 is disclosed in Note 22 to the financial statements.

Supervisory Board

Independence
The Supervisory Board is a body that operates independently of the Board of Directors. The members of the Supervisory Board are independent within the meaning of the Dutch Corporate Governance Code, are not part of the management of the Group, nor may they be employees of the company.

Duties
The Supervisory Board supervises the policies pursued by and the performance of the Board of Directors. The Supervisory Board also acts as an advisory body to the Board of Directors. For the purposes of fulfilling this duty, the Supervisory Board focuses on the interests of the company and weighs the relevant interests of relevant stakeholders, based on the basic principles of responsible entrepreneurship.

The Supervisory Board and its individual members perform their supervisory and advisory duties on the basis of the extensive information provided by the Board of Directors that is necessary for that purpose. The Supervisory Board also requests information from other company officers, external advisers of Neways and, if considered necessary, the Supervisory Board's own advisers. Neways provides the necessary resources for this.

Appointment
Members of the Supervisory Board are appointed and reappointed by the General Meeting of Shareholders for terms of four years. For each new appointment, the Supervisory Board has a right of nomination based on the profile that it has drawn up for the Supervisory Board that is available on the corporate website. The central works council (Centraal Overleg Neways, CON) has a right of recommendation that carries extra weight for one third of the membership of the Supervisory Board. The Supervisory Board may adopt the CON's recommendation.

The Supervisory Board appoints a chair and a vice chair. The chair may not have previously served on the Board of Directors of Neways. Given the Group's size, no formal introduction programme is in place for members of the Supervisory Board. For more information on the composition and relevant positions outside the Group of the members of the Supervisory Board in 2017 see the section 'The Supervisory Board, the Board of Directors and the management team' in this annual report (page 36).

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

Remuneration policy
Upon a proposal of the Supervisory Board, the General Meeting of Shareholders may award the members of the Supervisory Board a remuneration. The remuneration is not linked to the company's results. See Note 22 to the financial statements for more information about the remuneration of the Supervisory Board in 2017.

General Meeting of Shareholders

A General Meeting of Shareholders is held at least once annually and is chaired by the chair of the Supervisory Board. Minutes are drawn up of the General Meeting of Shareholders that are made available on the corporate website.

Decision-making process

All resolutions are passed in accordance with the principle of 'one share, one vote'. Shareholders – individually or with a combined interest of at least 1% of the issued share capital – are entitled to ask the Board of Directors or the Supervisory Board to place a particular topic on the agenda. Such requests will be granted if they are made in writing and at least sixty days before the date of the General Meeting of Shareholders.

Important Board resolutions that entail a change in the Group's identity or character require the approval of the General Meeting of Shareholders; at the minimum, this includes resolutions to transfer the entire business, or virtually the entire business, to form or terminate lasting alliances or to acquire or dispose of participating interests representing a value of one third of the consolidated balance sheet total or more.

The policy for profit appropriation and dividends, and the proposed dividend, are presented to the shareholders separately, as are substantial changes to the corporate governance policy, including changes to the remuneration policy for the Board of Directors.

Extraordinary General Meeting of Shareholders

Extraordinary General Meetings are held if prescribed or if the Supervisory Board or the Board of Directors considers this to be desirable or if shareholders – representing at least 10% of the issued capital – submit a request for a general meeting in writing, stating the topics to be considered, to the Supervisory Board and the Board of Directors.

Powers

The General Meeting of Shareholders has the following regular powers:

- Adopting the financial statements;
- Discharging the Board of Directors from liability for its policies during the past year;
- Discharging the Supervisory Board from liability for its supervision of the policies during the past year;
- Adopting the profit appropriation/dividend distribution;
- Approving resolutions by the Board of Directors for significant changes to the Group's identity or character;
- Adopting significant changes to the company's corporate governance policy;
- Appointing members of the Supervisory Board;
- Dismissing the entire Supervisory Board;
- Establishing the remuneration policy for the Board of Directors;
- Establishing the remuneration of the individual members of the Supervisory Board;
- Deciding on issuances of shares, granting rights to purchase shares (option rights) or to designate the Board of Directors to make such decisions for a specific period of time, where applicable to the exclusion of shareholders' pre-emptive rights;
- Appointing the external auditor;
- Passing resolutions to amend the Articles of Association based on proposals by the Board of Directors;
- Authorising the Board of Directors to repurchase shares in the company's capital.

The agenda and the notes for the Annual General Meeting of Shareholders to be held on 20 April 2018 have been placed on the Neways corporate website.

H2O ALERT

Neways helped the Dutch development company BeKoSENSE to create the H2O Alert, a system that monitors the quality of drinking water in dairy farming.

Using smart sensors, the system measures the temperature and the chemical composition of water to determine whether the drinking water is sufficiently clean. If the composition of the drinking water exceeds defined maximum values the farmer will be notified by means of an SMS text message.

This product is a good example of the industrial application of the Internet of Things. Production processes can be optimised by letting devices communicate with each other. The outcomes of the measurements of water quality are also stored in the cloud, providing a longer-term understanding on the basis of which farmers can improve the quality of their product.

Neways developed hardware and software for the H2O Alert of BeKoSENSE that make possible accurate measurement (the sensor) and transmitting this information (the gateway).

Market and commercial risks

Risk	Measures
Cyclical economic fluctuations	• Spread across market sectors • Reduce dependence on cyclical sectors • Expand activities in stable sectors
Shifting customer requirements	• Good positioning and scale to be able to respond to changing demand from customers • Improvement programme increases customer intimacy facilitating better anticipation of new customer requirements
Growing regulatory pressures	• Compliant with all relevant product and environmental requirements • Intensify collaboration with suppliers to improve product traceability
Competition on price	• Focus on life cycle management and best cost of ownership • Group-wide strategy aimed at moving up in the value chain
Scarcity of technical knowledge	• Employer branding policy that emphasises positive work culture and career and promotion opportunities • Competitive salaries and employment benefits

Operational risks

Risk	Measures
Chain complexity	• Standardisation of materials purchasing • Reduction of number of suppliers • Strict monitoring of on-time delivery • Spread of risks and costs in the entire logistical chain
ICT systems	• Internal and external back-up-systems • Phased implementation of new systems and adjustments on the basis of prior learnings
Continuity of production	• Invest in and monitor safety of production facilities

Financial risks

Risk	Measures
Liquidity and solvency	• Conservative and solid financing policy • Strong management for cash flow • Favourable supplier finance terms to promote earlier payment • Expanded Group facility up to year-end 2019
Receivables	• Careful assessment and minimisation of credit risks with new customers • Credit insurance
Inventories	• Monitor and manage inventories • Introduction of system for unique article coding

Risks and risk management

Neways is an internationally operating listed company that is focused on long-term value creation. The risks to which Neways is exposed in its operations are mitigated as much as possible by a range of risk management mechanisms. Risks identified by the company in interactions with customers are often incorporated in the customer proposition. Doing business nonetheless inherently entails risks, both specifically for the market in which Neways and its customers operate and generally in the form of business risks.

Neways operates in the EMS market which is characterised by competition on price, a complex logistical chain and increasing regulation of the quality and sustainability of electronic applications.

Risk management mechanism

Our risk management policy is aimed at managing the risks as effectively as possible by means of our internal control systems. We continually monitor the risks that are relevant for the organisation at a strategic, tactical and operational level. In 2017 we began preparations to implement a COSO-based control framework. The objective of risk management, however, is not to exclude all risks but to be able to respond to developments in a timely and adequate manner.

The internal control systems contribute to better assurance and streamlining of our business processes, compliance with the relevant laws and regulations and attaining our strategic ambitions. The Board of Directors has final responsibility for the entire risk management system, which is an integral feature of the coordination and management of the Group. It is also a topic that is systematically discussed by the Board of Directors and the Supervisory Board.

The separation of functional controls is also safeguarded within the systems. Each operating company monitors and manages risks, while the central coordination, direction and control take place at the holding company level. Various employees at the holding company and the operating companies each have their own responsibility in identifying and managing the various risks. The internal auditor (see also Corporate Governance on page 39) also supervises compliance with laws and regulations, the quality of risk management systems and initiates improvements in processes. Such systems can, however, never provide full assurance that objectives will be achieved, nor prevent all material misstatements, losses, fraud and breaches of laws and regulations.

All operating companies report revenue and order intake figures on a weekly basis. A consolidated statement of financial position and profit and loss account are drawn up on a monthly basis, with a summary of the key financial figures, including a statement of cash flows, and elements of operational performance. This also includes forecasts for the profit and loss account and the statement of cash flows for the full financial year, as well as a balance sheet forecast for the end of the financial year. A copy of the consolidated monthly reports is provided to the Supervisory Board. Visits are made to the operating companies every two months by members of the Board of Directors to discuss key operational matters and points for improvement. Neways created a position for a Manager business improvement & internal control as from 1 January 2017. The responsibilities include reviewing the risk systems and actively improving the business processes which further strengthen the risk management and compliance of the Group.

Market and commercial risks

Cyclical economic fluctuations

End customers are susceptible to macro-economic developments and the manufacturing industry consequently experiences cyclical economic fluctuations that have an impact on the new product introductions and the timing of orders for outsourcing partners such as Neways. Cyclical slumps or more short-term fluctuations may lead to deferment of orders and plan adjustments that adversely affect capacity utilisation and financial performance.

Neways operates in a range of markets sectors. The acquisition of BuS Group in 2014 improved the spread across market sectors and the dependence on the cyclical semi-conductor sector in particular was reduced substantially. The spread is reflected in more stable trends in orders, revenue and results. Across the sectors, Neways remains dependent on a number of large customers. Nonetheless, further reducing the sensitivity to cyclical economic fluctuations and short-term plan adjustments of customers remains a priority. This can be achieved by expansion of the activities in more stable market sectors such as medical and defence and by better coordination and further flexibilisation of the labour organisation as a whole. A long-term vision is crucial in this connection.

Shifting customer requirements
Driven by globalisation and technological progress, the requirements that OEMs set for outsourcing partners are changing. There is a risk that Neways cannot respond sufficiently to that shift and may lose important customers and partnerships as a result.

Neways anticipates these developments and has the required scale to be able to respond to this shift in demand from customers. This is a focus area for the Board of Directors; adapting to ceaselessly changing customer demand by remaining close to the customer in every stage of the product lifecycle is the core of our strategy.

Growing regulatory pressures
Laws and regulations concerning quality and safety, sustainability and transparency are increasing. Environmental requirements are becoming stricter. A failure to comply with them may lead to reputational damage, fines and loss of customers.

Neways complies with all relevant product and environmental requirements and is continually alert to identify and implement points for improvement. Together with its first and second tier suppliers, Neways is working to improve the traceability of purchased materials to obtain greater insight into and to be able to report on their provenance. The Corporate Social Responsibility section (page 31) describes in greater depth how Neways is working to implement a sustainable supply chain.

Competition on price
The EMS market is traditionally a production industry that is often accustomed to competing on price. Globalisation and technological progress are leading to continual price pressure on electronic applications. There is a risk that the margins of Neways will be squeezed due to these developments.

Neways is focused on long-term value creation. This also applies to partnerships in the field of technology and product lifecycle management, which Neways enters into on a long-term basis. Neways accordingly is able to offer customers more added value and the best total cost of ownership. That crucially depends on our ability to provide input into customers' thinking from an early stage of new product introductions, and to work on development and innovation with them. This enables us to deliver the best quality at the lowest total costs across the entire lifecycle of the product.

Scarcity of technical knowledge
Scarcity in the labour market may adversely affect the execution of the strategy and production and development capacity. This scarcity currently applies to technical engineers and systems architects in particular.

Neways actively engages in employer branding and positions itself as an attractive employer that offers a work environment in which talents with a technical background have a say sooner than elsewhere and are given more opportunities and possibilities to advance their career in the high-tech sector. In addition, terms of employment and employee benefits are benchmarked on a periodic basis.

Operational risks
Chain complexity
The EMS market is characterised by a complex supply chain and that complexity is continually increasing due to growing demand for box-build systems. Materials purchasing for such systems is often many times more complex than for components. In addition, buoyant economic activity generally leads to growing demand for electronics and thus to a growing scarcity in the market for components that Neways uses in its products. As co-developer for customers, Neways plays an increasingly prominent role in the supply chain. Quality and supply problems may however disrupt planning and production processes.

Neways continually monitors the risks of delayed delivery per product group and per supplier. Activity in the purchasing and manufacturing process is not set in motion until the customer order and/or signed contract is in place. If the order or contract is cancelled, the costs that have been incurred, such as the inventory costs for purchased components, are spread across the logistics chain. This approach minimises the financial risks for Neways. To mitigate the risk resulting from scarcity of certain components, Neways works within the framework of its single sourcing purchasing policy to establish long-term partnerships with first-tier suppliers that lead to mutual dependence.

ICT systems
A reliable ICT infrastructure that promotes productivity is crucial to the operation of our organisation. Failing ICT systems or failing implementation of new ICT systems that do not meet users' requirements and wishes may lead to a disruption of the operational processes, the general operations management and the internal and external reporting as a result of which Neways may not be able to comply with its obligations in respect of stakeholders.

Neways has internal and external back-up systems to mitigate the risk of failing ICT systems as much as possible. In addition, continual improvements take place that enhance the stability of our ICT systems. Each new ICT system is implemented in phases. Continual improvement is guaranteed by means of interim evaluations, thoroughly considered decisions and the execution of tested improvements.

Continuity of production
Emergencies and other unforeseen circumstances can pose a risk for continuity of production.

Neways invests continually in the safety of its production facilities by means of preventive controls in work procedures and safety protocols in risk areas. Regular safety and working conditions inspections are also carried out at our facilities.

Financial risks

Liquidity and solvency
If liquidity and/or solvency is too low, there is a risk that creditors will claim the amounts due to them from Neways. OEMs are increasingly expected to call on Neways to contribute more to investments in development processes as a long-term partner. Neways is active in the high-tech sector but is not a capital-intensive business. We pursue a conservative and solid financing policy with a strong focus on cash flow management. In connection with a number of long-term partnerships, agreements have been made in the field of supplier finance, resulting in swifter payment to us on average. The Group facility that was renewed and expanded in 2016 offers more financial scope on better terms, as a result of which liquidity risk is reduced. This also gives Neways opportunities to use the favourable terms offered by suppliers for shorter payment terms.

Receivables
There is a risk that customers of Neways may be unable to meet their payment obligations, which may lead to financial losses.

We carefully assess this risk when we enter into a new customer relationship and subsequently minimise it. In addition, Neways has credit insurance.

Inventories
Free inventories, i.e. inventories that are not covered by orders or contracts, represent a risk for Neways and can increase the working capital tied up and pressure cash flow and margins.

Together with its suppliers, Neways continually focuses on monitoring and managing inventories. The initiatives regarding the supply chain are designed to contribute to a lasting reduction of inventory levels. One of these is a system for uniform article coding that is aimed at reducing the volume of free, uncovered inventories.

In-control statement

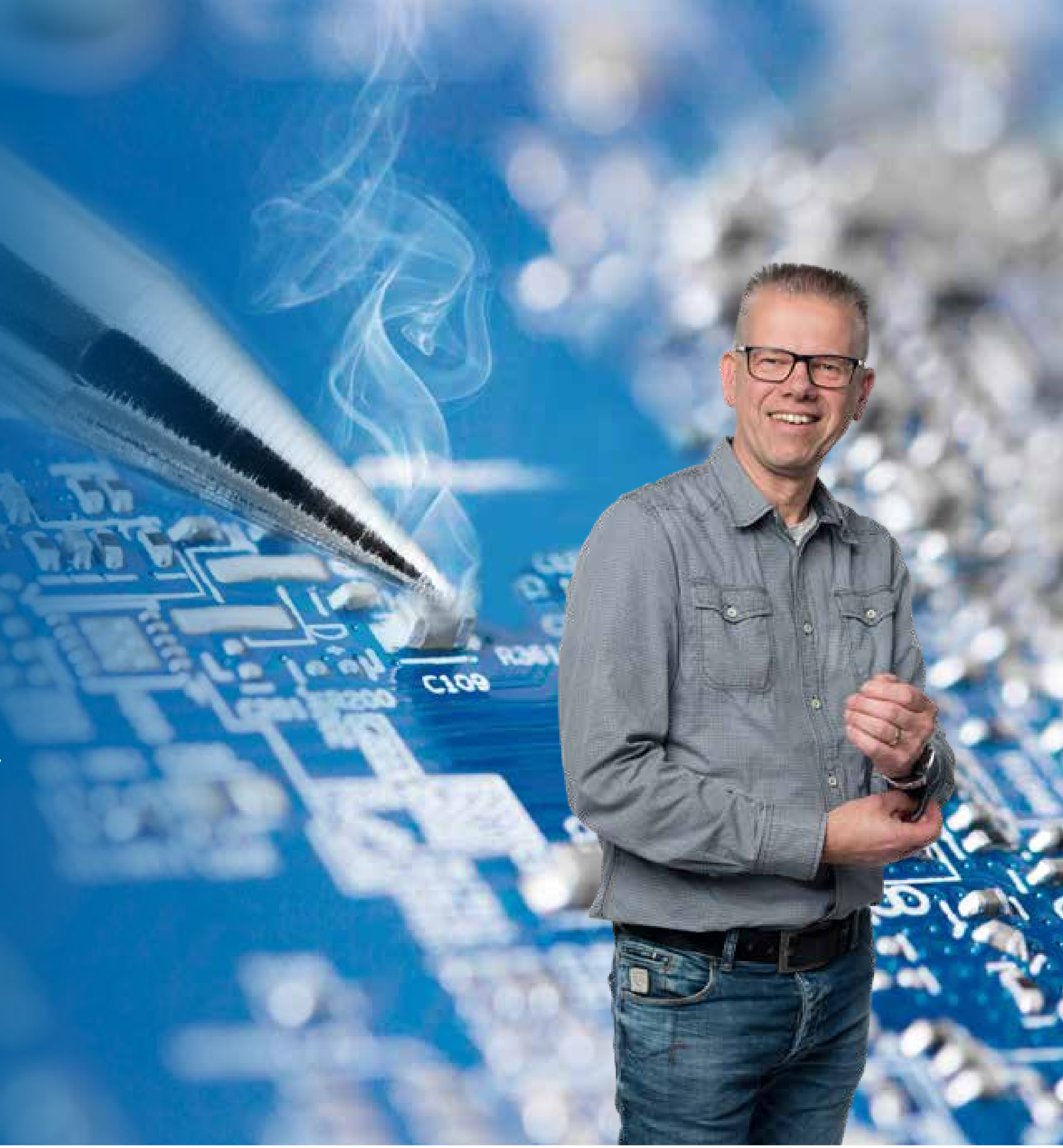
Given the above, the Board of Directors confirms that to the best of its knowledge the risk management and control systems provide reasonable assurance that the financial reporting contains no material misstatements and that the risk management and control systems operated effectively in 2017. The Board of Directors also confirms that to the best of its knowledge and on the basis of the current situation the preparation of the financial reporting on the basis of the going concern assumption is justified. There are no indications that the continuity of Neways as a going concern will be at risk in the 12 months following publication of this Annual report.

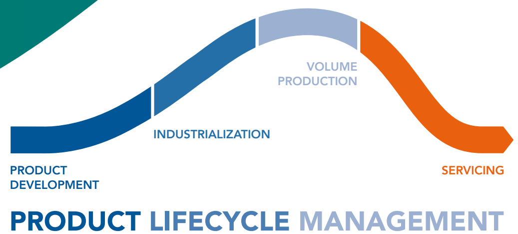
Servicing

"We remain close to the customer even in the final stages of the product lifecycle and pro-actively deliver added value based on specialised expertise. A components engineer at Neways monitors when components in Neways products at customers need to be replaced. When I receive an end-of-life notification, I arrange delivery and replacement of the component. In the past, customers came to us with a question but now we are one step ahead of them in this respect.

Sometimes, of course, a component is no longer manufactured or has a very long delivery time. If that is the case, we will always find a solution in consultation with the customer. Sometimes the component will still be in stock at our supplier and if not, we will look for alternative solutions together with the customer.

This phase of the product lifecycle goes beyond maintenance or repairs. Because engineers such as myself have short lines of communication with customers, we can actively advise them on replacing parts or components. We really provide active input to help customers get the best out of their products."





JOHN HENDRIKS
COMPONENT ENGINEER
NEWAYS ADVANCED APPLICATIONS B.V.

iPERL

Water companies can use the iPERL, a smart meter made by Sensus that detects leakages in water pipelines, to combat water wastage and improve their infrastructure and distribution networks.

By contrast to other water meters, the iPERL deploys a unique technology: a magnetic field uses the water flow to generate an electric voltage. This voltage decreases if the flow rate slows down. This technology enables the iPERL to perform highly accurate measurements at 15-minute intervals, even at flow rates of one litre per hour.

Thanks to the frequency and accuracy of its measurements, the iPERL provides users with a wealth of information. Neways advised Sensus on organising an optimal and efficient production process to facilitate rapid and profitable production of the iPERL. Sensus subsequently also called on Neways' expertise in connection with the development of other products.

Board of Directors' statement of responsibilities on the financial report

in accordance with Section 25c, Part 5 of the Dutch Financial Supervision Act (Wet op het financieel toezicht)

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

The 2017 financial statements give a true and fair view of the assets, liabilities and financial position as at 31 December 2017 of Neways Electronics International NV and the Group companies included in the consolidation, and of the results for the year then ended;

The 2017 annual report gives a true and fair view of the position as at 31 December 2017 of Neways Electronics International NV 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 the annual report describes the material risks facing the company.

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

Shares in Neways

The shares in Neways are listed on Euronext in Amsterdam and have been included in the Tech40 Index since 2016. The Tech40 comprises a total of 320 tech companies that are listed on all Euronext Markets as Small or Midcap businesses. The companies making up the Tech40 Index are selected every year. NIBC Markets N.V. acted as liquidity provider in 2017 and has been appointed again in 2018.

Neways share capital

The share capital of Neways consists of ordinary shares with a nominal value of € 0.50 per share. At year-end 2017, the share capital in issue consisted of 11,481,301 shares. During the year 2017, exercises of employee options increased the share capital by 22,500 shares.

	2017	2016
Year-end	11,481,301	11,458,801
Weighted average	11,473,678	11,418,822

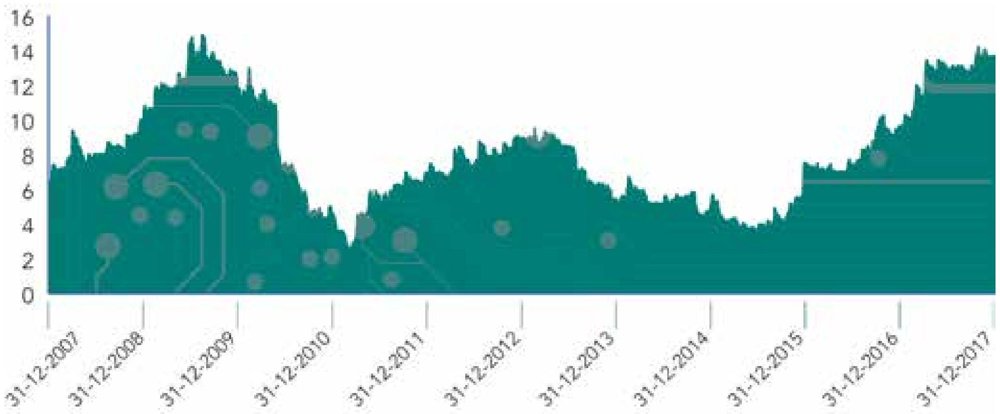
Movements in share price and ratios

	2017	2016
Highest price	€ 14.21	€ 10.21
	(1 November)	(31 October)
Lowest price	€ 9.20	€ 6.65
	(2 January)	(4 May)
Closing price	€ 13.65	€ 9.28
Net profit per share	€ 0.86	€ 0.85
Dividend	€ 0.35	€ 0.34
Price-earnings ratio at year-end	15.9	10.9
Market capitalisation at year-end	€ 156,719,759	€ 106,337,673

Shareholders

Pursuant to the Dutch Disclosure of Major Holdings in Listed Companies Act (Wet Melding Zeggenschap, or WMZ), interests in the issued capital of Neways of 3% or more are required to be disclosed to the Netherlands Authority for the Financial Markets (AFM). At year-end 2017, the following shareholders were known to hold interests of at least 3%.

Movements in share price (in €)



Shareholder	%	Date of last disclosure
VDL Beleggingen B.V.	26.1%	17-12-10
Stg. Administratiekantoor Tymen	19.7%	08-06-09
Teslin Participaties Coöperatief U.A.	8.9%	28-11-17
Menor Investments B.V.	5.6%	09-01-09
OtterBrabant Beheer B.V.	5.4%	01-11-06
Add Value Fund N.V.	3.9%	30-09-16

Most of the shares that have been issued are held by Dutch institutional investors, family offices and private investors. As at 31 December 2017, the Board of Directors did not hold any shares in Neways.

Dividend policy

Neways targets a dividend distribution of 40% of the net profit. Distribution of dividends is subject to various conditions, including that solvency (guaranteed capital adjusted for deferred tax assets and intangible assets/total equity) must be at least 35%. Based on the profit realised in 2017 of € 0.86 per share, the dividend proposal presented to the General Meeting of Shareholders for the 2017 financial year is € 0.35 per share, to be taken in cash. This represents a payout ratio of 40%.

Share options

Neways has a remuneration policy that is aimed at maximising long-term value creation for shareholders. A new remuneration policy was approved in the General Meeting of Shareholders on 18 April 2017. This provides for a Performance Share Plan under which the number of long-term performance shares that is actually received depends on the profit margin target set in advance during a 3-year performance period.

The Supervisory Board decides each year whether to grant performance shares to the members of the Board of Directors and some other key executives. This decision is presented to the General Meeting of Shareholders for approval. The full proposed remuneration policy is available on the corporate website.

The share option scheme was phased out; options were awarded for the last time to members of the Board of Directors and other key executives in 2017. Decisions to grant options include a consideration of the relevant operating company's targets, both already realised and yet to be realised, and the individual performance of the key executive concerned.

The exercise price for the options is the listed price on date of grant of the options. Outstanding options have a term of at least three years. Each option entitles its holder to one ordinary share in Neways. Neways' options policy does not state that shares will be repurchased to counteract the dilution effects of exercising options.

In 2017, a total of 45,000 options were granted to the members of the Board of Directors, and a total of 30,000 to other key executives, at an exercise price of € 11.71 and a term of five years. Members of the Board of Directors and other officers exercised 22,500 options during the year. See Note 16 to the financial statements for further details of the options and performance shares granted to the members of the Board of Directors.

Key dates

28 February 2018	Publication of annual report 2017
20 April 2018	General Meeting of Shareholders 2018
20 April 2018	Publication of interim trade report
24 April 2018	Ex-dividend listing
25 April 2018	Record date
30 April 2018	Dividend made payable
30 August 2018	Publication of half-yearly results 2018
30 October 2018	Publication of interim trade report

Prevention of insider trading

The existing regulations on both the internal and external treatment of price-sensitive information, as stated in the Model code, are periodically reviewed and if necessary strengthened by own guidelines. These regulations apply not only to the Supervisory Board and the Board of Directors, but also to the management layer below the level of the Board of Directors and all head office staff who come into contact with price-sensitive information. Neways has a Compliance Officer to monitor and enforce strict compliance with the regulations.

Investor relations

Neways is committed to transparency and the Investor Relations policy is aimed at regular communication with shareholders and other financial stakeholders. In addition to the publication of the annual report, the half-yearly report and the interim trade reports, there are various moments during the year when the Supervisory Board and the Board of Directors communicate with shareholders. The most important of these moments every year is the General Meeting of Shareholders. Neways also organises an annual open day at one of the operating companies where shareholders have the opportunity to exchange views with members of management in an informal setting and acquire knowledge of a specific operating company. Visit newayselectronics.com to find out more about shares in Neways.
You can also contact us at
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.

The Supervisory Board supervises the execution of Neways' strategy and how the Board of Directors achieves long-term value creation on that basis. During 2017 the Supervisory Board performed its supervisory duties in line with the applicable laws and the articles of association of Neways Electronics International NV. In that capacity, important decisions of the Board of Directors are submitted to the Supervisory Board for approval. The Supervisory Board also supported and advised the Board of Directors during the past year.

Corporate governance

Neways places great importance on good corporate governance and compliance with the Dutch Corporate Governance Code. The revised Corporate Governance Code was published on 8 December 2016. Where necessary, the procedures and regulations in the Neways organisation were adapted in 2017. The principles and provisions as formulated in the updated Code are complied with where possible and relevant, with the exception of a number of best practice provisions from which Neways departs. See the section entitled 'Corporate governance' (page 39) and the corporate website for more information.

Composition of the Board of Directors and Supervisory Board

There were no changes in the composition of the Board of Directors in 2017. There were also no changes in the composition of the Supervisory Board. During the General Meeting of Shareholders held in 2017, the meeting approved the reappointment of Mr René Penning de Vries as member and Vice chairman of the Supervisory Board. Mr Penning de Vries was reappointed for a period of four years, until 2021.

As Supervisory Board, we look closely at the expertise and experience of members with regard to the composition of both the Board of Directors and the Supervisory Board, primarily considering suitability on the basis of background, specialist (technical) expertise and competencies. The Supervisory Board also recognises the importance of greater diversity in male and female representation. At present the Board of Directors and the Supervisory Board lack diversity in terms of male and female representation. However, this diversity within Neways as a whole and among the various management teams is increasing. Neways has not defined a formal diversity policy, but prospective members of the Board of Directors and the Supervisory Board are selected with a view to a mixed composition in terms of age, experience, expertise, personality, gender and social background.

Supervision and advice

Significant steps were taken in 2017 under the leadership of the Board of Directors. The implementation of the Group-wide improvement programme further strengthened the organisation. The Board of Directors gave the central holding company a more prominent role in managing operating companies, supporting the business and maintaining a focus on changing and improving processes and performance. Key focus areas include service-mindedness – both internal and external – and supply chain optimisation. The strategic choice to move forward in the value chain as technology and product lifecycle partner of customers is fully under way and on track. The Supervisory Board has seen on various occasions that this choice is supported and endorsed throughout the Group.

In the past year, we discussed in detail with the Board of Directors how to utilise this strategic direction in order to facilitate continued long-term sustainable growth. This can be achieved by creating suitable conditions in areas such as logistics, engineering and process improvement.

Revenue growth clearly accelerated in the past year. The most important challenge for the Board of Directors and the management teams in connection with the increase in customer demand continues to be the optimisation of business processes, the simplification and integration of ways of working at all operating companies, both individually and in conjunction with each other. This is reflected in particular in supply chain design, which remains a complex and in some respects unwieldy process. A structured, gradual approach has been opted for, with interim checks and balances, to prevent disruptions to the ongoing business processes.

The Supervisory Board meets formally with the Board of Directors at least five times each year. In 2017 the Supervisory Board held seven full meetings with the Board of Directors, two of which were devoted mainly to the Group's overall strategy. The strategy and development and refocusing of the long-term vision were key items on the agenda at all meetings. Various other important topics were also discussed: building long-term partnerships, maximising customer value and management development. All regular topics were also discussed during these meetings. These included the ongoing financial results, the financial position, the budgeting and reporting, the effectiveness of the internal control systems and the remuneration of the individual members of the Board of Directors. All members of the Supervisory Board attended these full meetings.

The performance of the Supervisory Board and its individual members was evaluated in a meeting without the Board of Directors. The advisory role concerning the various elements of the improvement programme and the design of the organisation was evaluated. This led to the conclusion that advice on process improvements should be discussed more often and on a more regular basis.

Full meetings

During the year, the chairman of the Supervisory Board attended two full meetings of the central works council (Centraal Overleg Neways, or CON). Informal consultation also took place on several occasions between members of the Supervisory Board and members of the central works council. The further flexibilisation of the deployment of labour capacity was again an important topic for discussion.

The results of the employee satisfaction survey held among all employees in the Netherlands were also discussed. The results, which clearly reflected employees' engagement, will serve as a baseline for the employee satisfaction survey to be held every two years.

The Supervisory Board held one meeting with the external auditor, which was attended by the Board of Directors. The members of the Supervisory Board also held meetings with the external auditor without the Board of Directors. These did not give rise to any findings requiring immediate attention or action.

Contact with shareholders

The Supervisory Board attaches great importance to transparency and open communication with shareholders. Although most communications with shareholders are conducted through the Board of Directors, direct communications between shareholders and the Supervisory Board took place at various moments during the past year.

The most important of these moments in each year is the General Meeting of Shareholders. Neways also organises an annual open day for shareholders. The meeting in 2017 took place at Neways Electronics in Leeuwarden. During the shareholders day, which as usual was well-attended, the strategy and the latest results of Neways were discussed, and a presentation was given on the local implementation of the programme Up to the next level.

Financial statements

The Board of Directors has presented the 2017 financial statements to the Supervisory Board. The financial statements have been discussed in detail with the external auditor, KPMG, which issued an unqualified report on them. That report is included in the other information in this annual report (page 107).

The Supervisory Board finds that the report of the Board of Directors for 2017 gives a true and fair view of the Group's financial position and profitability. All members of the Supervisory Board have signed the financial statements 2017.

The General Meeting of Shareholders will be advised to adopt the 2017 financial statements and to grant the Board of Directors and the Supervisory Board discharge from liability for their policies and their supervision of those policies, respectively, over the past financial year.

Profit and dividend

Last year the company realised net profit of € 10.0 million before exceptional income and expense. This represents an 8.7% improvement relative to 2016. Including exceptional income and expense, net profit was € 9.9 million, compared with € 9.7 million in 2016. The Board of Directors proposes – with the approval of the Supervisory Board – to distribute a dividend of € 0.35 per share for the financial year 2017, to be taken in cash. The dividend payable for 2017 represents 40% of the net profit, in line with the dividend policy.

Appreciation

Neways worked to improve the quality of the organisation in the past year. Neways created a more professional organisation by increasing the focus on management development, supply chain management and prioritisation.

Long-term qualitative and quantitative growth requires more standardisation in certain processes. A great deal of work was clearly devoted to this in the past year. It will benefit the culture at Neways, which centres on transparency, team work and accountability. A culture in which providing feedback and sharing knowledge are inseparably linked with each other contributes to a pleasant and constructive working atmosphere.

We would like to express our gratitude to the members of the Board of Directors for the pleasant and constructive cooperation. A special word of thanks goes to all employees who are responding pro-actively, with great drive and enthusiasm, to the changes in the organisation and leveraging this new momentum to achieve the ambitions of the company and create long-term value for all our stakeholders.

Son, 27 February 2018

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

Consolidated statement of financial position

Amounts x € 1,000 as at 31 December	Notes	2017	2016
Fixed assets			
Property, plant and equipment			
Land and buildings	5	15,611	16,127
Plant and equipment	5	20,046	18,122
		35,657	**34,249**
Intangible assets			
Software	6	5,930	6,698
Goodwill	6	2,754	2,754
Customer relationships	6	3,174	4,020
		11,858	**13,472**
Financial assets			
Equity accounted investees	22	5	10
Deferred tax assets	7	4,352	4,293
		4,357	**4,303**
Total fixed assets		**51,872**	**52,024**

Amounts x € 1,000 as at 31 December	Notes	2017	2016
Current assets			
Inventories			
Raw materials and consumables	8	58,962	47,308
Work in progress	8	22,873	19,118
Finished products	8	16,208	19,854
		98,043	**86,280**
Receivables			
Trade and other receivables	9	53,286	48,470
Corporate income tax		158	147
		53,444	**48,617**
Cash and cash equivalents	10	**1,041**	**1,167**
Total current assets		**152,528**	**136,064**
Total assets		**204,400**	**188,088**

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

Amounts x € 1,000 as at 31 December	Notes	2017	2016
Equity			
Issued and paid-in capital	11	5,741	5,730
Share premium		40,312	39,989
Retained earnings		38,385	32,324
Translation reserve	11	610	896
Equity attributable to holders of equity instruments in the parent company		**85,048**	**78,939**
Long-term liabilities			
Interest-bearing borrowings	13	4,970	5,342
Provisions	14	917	578
Pension and jubilee provisions	15	5,106	5,322
Deferred tax liabilities	7	702	755
		11,695	**11,997**

Amounts x € 1,000 as at 31 December	Notes	2017	2016
Current liabilities			
Bank overdrafts	13	32,944	19,890
Interest-bearing borrowings	13	372	5,949
Trade and other payables	17	66,092	63,264
Taxes and social security premiums		5,824	7,100
Corporate income tax		1,175	325
Provisions	14	1,250	624
		107,657	**97,152**
Total equity and liabilities		**204,400**	**188,088**

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	Notes	2017	2016
Revenue		438,685	393,198
Movements in work in progress and finished products		740	63
Raw materials and consumables		–268,084	–239,410
Employee expenses	18	–120,549	–107,897
Depreciation and amortisation	19	–9,059	–8,216
Other expenses		–27,432	–25,958
Operating profit		**14,301**	**11,780**
Finance costs	20	–1,620	–2,113
Profit before tax		**12,681**	**9,667**
Income tax	7	–2,761	27
Profit for the period		**9,920**	**9,694**
Other comprehensive income			
To be reclassified to profit or loss in subsequent periods:			
Foreign exchange differences arising from translation of non-Dutch associates		–286	–21

Amounts x € 1,000	Notes	2017	2016
Total other comprehensive income to be reclassified to profit or loss in subsequent periods		**–286**	**–21**
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement of the defined benefit pension liability	15	61	–513
Related tax	7	–18	154
Total		43	–359
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods:		**43**	**–359**
Other comprehensive income for the period, net of tax		**–243**	**–380**
Total comprehensive income for the period		**9,677**	**9,314**
Earnings per share (in €):	21		
- Basic earnings per share		0.86	0.85
- Diluted earnings per share		0.82	0.84

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	Notes	2017	2016
Operating activities			
Profit before taxation		12,681	9,667
Adjusted for:			
Depreciation on property, plant and equipment	5	7,377	6,251
Amortisation on intangible assets	6	1,682	1,965
Costs of employee options granted	16	77	62
Costs of employee performance shares awarded	16	106	0
Finance costs	20	1,620	2,113
Movements in provisions and pension commitments		749	–1,366
Movements in working capital*		–17,404	–4,967
		6,888	**13,725**
Other movements:			
Interest expense paid		–1,475	–1,761
Corporate income tax paid		–2,229	–1,379
Cash flow from operating activities		**3,184**	**10,585**
Investing activities			
Payments to acquire intangible assets	6	–68	–1,363
Payments to acquire property, plant and equipment	5	–6,537	–6,203
Proceeds from disposals of property, plant and equipment	5	0	0
Sale of discontinued operation	5	0	–385
Cash flow from investing activities		**–6,605**	**–7,951**

Amounts x € 1,000	Notes	2017	2016
Financing activities			
Proceeds from interest-bearing borrowings	13	0	0
Redemptions of interest-bearing borrowings	13	–5,988	–11,157
Increase/decrease in withdrawals from bank overdrafts	13	13,054	9,111
Dividends paid to holders of ordinary shares	12	–3,902	–1,254
Revenues from exercise of options		151	273
Cash flow from financing activities		**3,315**	**–3,027**
Movements in cash and cash equivalents		**–106**	**–393**
Net currency exchange difference		–20	8
Cash and cash equivalents at 1 January		1,167	1,552
Cash and cash equivalents at 31 December		**1,041**	**1,167**
* Movements in working capital			
Inventories		–11,763	–4,648
Trade and other receivables		–4,816	–8,597
Trade and other payables		451	7,824
Taxes and social security premiums		–1,276	454
		–17,404	**–4,967**

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

Consolidated statement of changes in equity

Amounts x € 1,000	Notes	Issued and paid-in capital	Share premium	Retained earnings	Translation reserve	Total Equity
Balance as at 1 January 2016		**5,701**	**39,693**	**24,243**	**917**	**70,554**
Profit for the financial year				9,694		9,694
Other comprehensive income				–359	–21	–380
Total comprehensive income for the period		0	0	9,335	–21	9,314
Issuance of shares	11	0	0			0
Exercise of options	16	29	234			263
Issuance of share options			62			62
Dividends	12			–1,254		–1,254
Total transactions with holders of shares in the parent company		29	296	–1,254	0	–929
Balance as at 31 December 2016		**5,730**	**39,989**	**32,324**	**896**	**78,939**

Amounts x € 1,000	Notes	Issued and paid-in capital	Share premium	Retained earnings	Translation reserve	Total Equity
Profit for the period				9,920		9,920
Other comprehensive income				43	–286	–243
Total comprehensive income for the period		0	0	9,963	–286	9,677
Exercise of options	16	11	140			151
Issuance of share options			77			77
Award of performance shares			106			106
Dividends	12			–3,902		–3,902
Total transactions with holders of shares in the parent company		11	323	–3,902	0	–3,568
Balance as at 31 December 2017		**5,741**	**40,312**	**38,385**	**610**	**85,048**

As at 31 December 2017, the share premium includes a sum of €131,000 as a call option for the convertible loans.

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

Notes to the consolidated financial statements

1. INFORMATION ABOUT THE GROUP

The consolidated financial statements of Neways Electronics International N.V. as at 31 December 2017 will be presented for adoption to the General Meeting of Shareholders on 20 April 2018. Neways Electronics International N.V. is a company incorporated and domiciled in the Netherlands, whose shares are publicly traded on Euronext Amsterdam (symbol: NEWAY). Its registered office is in Eindhoven, and its effective place of establishment is in Son.
Neways Electronics International N.V. and its subsidiaries together form the Group.
The Group is an international one-stop provider for advanced and integrated electronic components and systems for the industrial electronics sector.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of presentation of the financial statements

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. The consolidated financial statements are presented based on historical cost. The currency in which the consolidated financial statements are denominated is the euro.

On 27 February 2018, these consolidated financial statements were approved by the Supervisory Board for publication.

Declaration of correspondence

The consolidated financial statements of Neways Electronics International N.V. and its subsidiaries are presented in accordance with the International Financial Reporting Standards (IFRS), as accepted within the European Union and as applicable at the beginning of the financial year, and with Section 362(9), Book 2 of the Netherlands Civil Code.

Consolidation principles

The consolidated financial statements include the financial data of Neways Electronics International N.V. and its subsidiaries as at 31 December. These data are presented in accordance with the full consolidation method, based on uniform accounting principles. Adjustments are made to match any differences in valuation principles to those of the parent company. As a result, the financial data of the Group companies are wholly included in the consolidation. Upon consolidation, all assets, liabilities, capital, income, expense and cash flows resulting from transactions with the Group are eliminated in their entirety. Subsidiaries are defined as those businesses in which Neways Electronics International N.V. exercises effective control. The moment at which effective control is acquired is also the moment at which a new subsidiary is included in the consolidation. Consolidation is continued until such a time as the effective control ceases. Changes in ownership interests in subsidiaries that do not lead to loss of control are presented in the accounts as equity transactions.
If and when the Group no longer exercises meaningful control, fair value is used for measuring the remaining investment.
The companies included in the consolidation are listed in item 22 of the Notes.

Company financial statements

These financial statements have been prepared in accordance with Part 9, Book 2 of the Netherlands Civil Code, making use of the accounting principles as adopted within the European Union and as applied in the consolidated financial statements.

2.2 Summary of important accounting principles

Operating segments

The Group's long-term strategy is aimed at reinforcing its position as a one-stop provider for customer-specific industrial and professional electronic components and systems for the Electronic Manufacturing Services (EMS) market. Intensive working relationships and clear communications between the various Neways operating companies ensure that customers on that market are serviced as best possible, and that customers have a single contact for their dealings with the Group.

The Western European operating companies of Neways play an important part in promoting the Neways strategy of being a one-stop provider. Those operating companies are close to the buyers, both in terms of their dealings with customers and in the geographical sense. The operating companies in Eastern Europe and Asia focus primarily on producing larger, less complex, stable series, with a view to achieving cost advantages for their customers. Most of this production is commissioned by sister companies in Western Europe.

Continual improvement to the intra-Group cooperation at all levels within the organisation is a vital factor in ensuring that the Group operates as a homogenous, integrated group of businesses with coherent policies for quality, recognisable culture aspects and a shared vision.

The decisions made by the Group's management are based on its own assessments and direct communications with all parties involved. Financial control is based on consolidated information. As such, Neways uses only a single segment as meant in IFRS 8.

Of the total revenue of € 438.7 million in 2017, revenue from one customer came to € 76.1 million (2016: € 52.0 million) while revenue from another customer was € 24.8 million (2016: € 23.8 million). See the Report of the Board of Directors, included in the annual report, for a breakdown of revenue across the separate market sectors and geographical segments.

Consolidated cash flow statement

The consolidated cash flow statement has been prepared using the indirect method. Cash flows denominated in foreign currencies are translated at the average foreign exchange rate. Foreign exchange differences connected to cash are presented separately in the cash flow statement. Interest received and paid and taxes on income are also presented under the cash flows from operating activities. The cash flow statement also takes account of the effects of sales and acquisitions of Group companies and subsidiaries included in the consolidation for the first time.

Business combinations and goodwill

Business combinations are presented according to the acquisition method, which involves presenting the identifiable assets and the obligations and contingent liabilities assumed at fair value, including those not previously presented by the party acquired. Costs (with the exception of costs of financing) relating to the acquisition are taken directly to the income statement. Costs of financing for taking out loans to finance the acquisition are taken to the balance sheet and amortised over the duration of the loan. 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 originating from a business combination is stated at the purchase price upon first inclusion, 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, obligations and contingent liabilities. If the purchase price of a business combination is less than the net fair value of the assets and liabilities acquired, the difference is taken directly to the income statement, as profit on the advantageous purchase as at the acquisition date.

The goodwill is subsequently valued at cost, net of any accumulated impairment losses. The Group ascertains whether its goodwill has been subject to any impairment losses once every year, or more frequently if events or altered circumstances point toward the possibility that the carrying amount has undergone an impairment. For the purposes of this impairment test, the goodwill originating from business combinations is allocated to the Group's cash-generating units, or groups of such units, that are expected to profit from the synergy resulting from the business combination with effect from the acquisition date, regardless of whether any of the Group's other assets and liabilities are allocated to those units or groups of units. Impairments are identified based on an assessment of the recoverable value of the cash-generating unit (or group of cash-generating units) to which the goodwill pertains. The recoverable amount is stated as the higher of the value in use or the recoverable value net of the selling expenses. If the recoverable value of that cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment is taken. Impairments of goodwill are not reversed if the recoverable value subsequently increases.

Translation of foreign currencies

The currency in which the consolidated financial statements are denominated is the euro, which is also the Group's functional and reporting currency. Every Group entity determines its own functional currency, and the line items presented in the financial statements of each entity are measured based on that functional currency.

I) Transactions and balance sheet items

When first included in the financial statements, transactions in foreign currencies are presented at the foreign exchange rate for the functional currency as at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate for the functional currency as at the balance sheet date. Any differences are taken through profit or loss, except differences on permanently invested loans to non-Dutch subsidiaries that serve to finance those foreign entities and for which no repayments are scheduled and/or immediately foreseen. These differences are taken directly to equity until the net investment concerned is disposed of, when they are included in profit or loss. Non-monetary line items stated at historical cost in foreign currencies are translated at the foreign exchange rates as they applied on the dates of the original transactions. Non-monetary line items stated at fair value and denominated in foreign currencies are translated at the foreign exchange rate as at the date on which the fair value is calculated.

II) Group companies

As at the reporting date, the assets and liabilities of the non-Dutch entities are translated into the Group's reporting currency (i.e. the euro) at the rate on the balance sheet date and are taken to the income statement at the foreign exchange rate as at the appropriate transaction date. The foreign exchange differences resulting from the translation of equity and borrowings of the Group's associates are taken directly to the translation reserve as a separate equity component. Upon the disposal of any non-Dutch entities, the deferred cumulative amount included in equity for that non-Dutch entity is taken to the income statement.

Financial instruments

Financial assets

Financial assets are stated at fair value upon their first inclusion.
The Group's financial assets consist of cash and cash equivalents and of trade and other receivables.

After their initial presentation, trade and other receivables are stated at amortised cost, if necessary net of any impairments.

Derecognition of financial assets

Financial assets (or, if applicable, parts of financial assets or parts of groups of similar financial assets) are no longer presented on the face of the balance sheet if the Group is no longer entitled to the cash flows generated by the asset in question, or if the Group has transferred its rights to the cash flows generated by the asset in question or has assumed an obligation to pay those cash flows to a third party, without any material delay, pursuant to a special agreement and either (a) has transferred all risks and benefits attached to the asset, or (b) has not transferred or retained virtually all risks and benefits attached to the asset but has transferred control.

Impairments of financial assets

Every year, as at the balance sheet date, the Group assesses whether any financial assets or groups of financial assets have been impaired. A financial asset, or group of financial assets, has only been impaired if that impairment can be objectively demonstrated based on one or more events that occurred after the asset's initial recognition and if the impact of those events on the estimated future cash flows of the financial asset or group of financial assets can reliably be estimated. Possible indications that point toward an impairment include where a debtor or group of debtors experiences significant financial difficulties, defaults on repayments or interest payments or is likely to go bankrupt or undergo a financial reorganisation, or tangible indications of a measurable drop in the projected future cash flows, such as changes in payment arrears or in economic circumstances that are closely related to the payment default.

Financial assets stated at amortised cost

For financial assets stated at amortised cost, the Group first determines whether any individually significant financial assets or, on a collective basis, any non-significant financial assets have undergone an impairment. If the Group determines that no objective indication exists that an individually considered financial asset has been impaired, regardless of whether or not it is a significant asset, it includes that asset in a group of financial assets with similar credit risks and determines whether that group has collectively undergone any impairments. Assets that are considered individually for impairment and for which an impairment, or further impairment, is taken are not included in a collective consideration for impairment. The amount for which an impairment is taken is calculated as the difference between the asset's carrying amount and the discounted value of the estimated future cash flows (with the exception of future credit losses that have not yet been incurred). The estimated future cash flows are discounted at the original effective interest rate for the financial asset. The asset's carrying amount is reduced by the value of a provision, and the loss is recognised in the income statement. The reduced carrying amount continues to accrue interest (recognised in the income statement as finance income) based on the interest rate at which the future cash flows are discounted for purposes of measuring the impairment. The lendings, and the related provision, are written down if and when no realistic prospect exists of future revenue and the entire security has been enforced or transferred to the Group. If the amount of the estimated impairment increases or decreases during a subsequent period in connection with an event after the write-down, the previously recognised impairment loss is increased or decreased by adjusted the provision formed. If a write-down is as yet realised at a later date, the revenue is deducted from the finance costs in the income statement.

Financial liabilities

Financial liabilities are stated at fair value upon their first inclusion, and in the case of borrowings include the directly allocable transaction costs. The Group's financial liabilities consist of trade and other payables, bank overdrafts and interest-bearing borrowings. Upon initial recognition, the financial liabilities are subsequently stated at amortised cost, based on the effective interest method.

Derecognition of financial liabilities

Financial liabilities are no longer presented on the face of the balance sheet once the consideration connected to the liability in question has been fulfilled, has been cancelled or has lapsed. Replacements of existing financial liabilities by others from the same lender, under manifestly different conditions, and material changes to the conditions governing an existing liability are regarded as derecognitions of the original liability from the face of the balance sheet and the recognition of a new liability. The difference between the carrying amounts in question appears on the income statement.

Offset of financial instruments

Financial assets and financial liabilities are only offset against one another and reported at the net amount on the face of the balance sheet if a legally enforceable right exists to offset the amounts in question and if the intention exists to effect a net offset, or to realise the assets with a simultaneous offset of the liabilities.

Property, plant and equipment

Plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. The costs of day-to-day maintenance are taken directly to the income statement. The costs of replacing parts of plant and equipment are only presented on the face of the balance sheet if it is reasonable to assume that the future economic gains that result will accrue to the Group. The carrying amounts of plant and equipment are tested for impairment losses if any events or changes in circumstances indicate that the carrying amount might not be realisable.

Land and buildings are stated at cost, net of depreciation on buildings and net of any accumulated impairment losses, if applicable. Land and assets under construction are not depreciated. Depreciation is calculated on a straight-line basis, 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

Buildings also include building modifications and improvements to buildings that have been leased. Property, plant and equipment are no longer recognised on the face of the balance sheet if disposed of or if no future economic benefits are expected from their use or disposal. Any gains or losses arising from the removal of the asset from the face of the balance sheet (which are calculated as the difference between the net proceeds upon disposal and the asset's carrying amount) are taken to the income statement during the year in which the asset is removed from the balance sheet. The asset's residual value, economic life and measurement methods are assessed at the end of the financial year, and if necessary adjusted.

Lease contracts

Management's opinion as to whether an arrangement constitutes (or includes) a lease is based on the substance of that arrangement upon formation of the rental agreement. The agreement constitutes (or includes) a lease if the performance of the agreement is contingent upon the use of one or more specific assets and the agreement grants the right to use the asset or assets, even where the arrangement does not include explicit reference to that right.

The Group as a lessee

A lease contract is categorised as a financial lease or an operational lease as at the date of the contract. Leases under which both the income and expense associated with ownership accrue entirely or almost entirely to the Group are categorised as financial leases. All other leases are categorised as operational leases.

When the lease commences, financial leases are capitalised at the fair value of the leased asset as at the commencement date or, if lower, the discounted value of the minimum lease payments. Lease payments are divided between the costs of financing and the reduction in the lease obligation to achieve a constant rate of interest on the remaining balance of the obligation. The costs of financing are presented on the income statement under finance costs.

Leased assets are depreciated over the useful life of the asset in question. However, assets for which it is not reasonably certain that the Group will acquire ownership at the end of the lease period are depreciated over the asset's estimated useful life or, if shorter, the lease period. Operational lease payments appear on the income statement as operational expenses, on a straight-line basis throughout the lease period.

Intangible assets (not including goodwill)

Intangible assets acquired separately are measured at cost upon initial recognition. Expenditure after initial recognition is capitalised only if this increases the future economic benefits embodied in the specific asset to which the expenditure relates. After the measurement upon initial recognition, intangible assets are stated at cost less accumulated amortisation, and less any accumulated impairment losses, if applicable. Finite-lived intangible assets are amortised over their useful lives, and tested for impairment losses if there is any indication that the intangible asset concerned might have been impaired. The amortisation periods and methods for finite-lived intangible assets are assessed at least once annually, at the end of each financial year. Any changes to the expected useful life or to the expected pattern of future economic gains of an asset are recognised by way of an amendment to the amortisation period or method, and are treated as a change in accounting estimates.

The amortisation charge on intangible assets is taken through profit or loss as follows:

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

Gains or losses stemming from removals of intangible assets from the face of the balance sheet are calculated as the difference between the net proceeds upon disposal and the asset's carrying amount, and are taken to the income statement at the moment of removal.

Impairments of non-financial assets (not including goodwill)

The Group assesses whether there is any indication as at the reporting date that any assets have been impaired. If any such indication is detected, or if an asset is required to undergo its annual impairment testing, the Group estimates the recoverable amount of the asset. The recoverable amount of an asset is the higher of the value in use or the fair value of that asset or cash-generating unit net of the selling expenses. The recoverable amount is calculated for each asset individually, unless that asset does not generate any cash flows that are largely independent from those of other assets or groups of assets. If an asset's carrying amount is higher than its recoverable amount, the asset is deemed to have been impaired, and its value is lowered to the recoverable amount. The recoverable amount is the higher of the value in use or the recoverable value net of selling expenses.

The calculation of the value in use is based on a discount of the estimated future cash flows, using a discount rate after tax that takes account of the current market assessments of the time value of money and the specific risks associated with the asset. Impairment losses on continued operations appear in the income statement and are recognised in the expense category that corresponds to the function of the asset in question. Every year, as at the reporting date, the Group assesses its assets (not including goodwill) to determine whether there is any indication that impairment losses previously recognised have ceased to exist or have been reduced. If there is such an indication, the recoverable amount is estimated. Impairment losses previously recognised are only reversed if the estimate used to determine the asset's recoverable amount has changed since the most recent impairment loss. In such an event, the asset's carrying amount is raised to the recoverable amount. However, the increased amount may not exceed the carrying amount as it would have been calculated, net of amortisation and depreciation, if no impairment losses had been recognised for the asset in previous years. Such reversals are recognised in the income statement.

Inventories

Inventories are stated at the lower of cost or net recoverable value.
Cost comprises the following costs:

Raw materials and consumables	- Purchase price, using the First-in, First-out method
Work in progress and finished products	- Direct costs of materials and labour, plus parts of the non-variable production costs based on normal operating capacity, but excluding finance costs.

The net recoverable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs for settling the sale.

Cash and cash equivalents

Cash and cash equivalents on the face of the balance sheet consists of bank balances and cash. For the purposes of the consolidated cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above.

Provisions

General

Provisions are formed if the Group has an existing liability (contractual or actual) as a result of a past event, if it is probable that an outflow of resources will be required to settle the liability, and if a reliable estimate can be formed of the amount of the liability. If the Group expects a provision, or part of a provision, to be compensated, for example under an insurance contract, that compensation is only recognised as a separate asset if it is virtually certain. The costs associated with provisions are taken to the income statement, net of any compensation. If the time value of money has any material effect, the provisions are discounted at a discount rate after tax that takes account of any specific risks associated with the liability in question, if applicable. Increases in discounted provisions caused by the passing of time are recognised as finance costs.

Provision for warranty costs

Provisions for warranty costs are formed when the products in question have been sold and are based on historical data and future estimates of returned products that require repair and redelivery.

Provision for restructuring costs

A provision for restructuring costs is only recognised if it meets the general criteria for recognition as a provision. The Group must also have a formalised plan for the relevant activity or the relevant part of an activity, the location and the number of employees involved, a detailed estimate of the related expenditure and a suitable timetable. The employees involved must have legitimate expectations that the restructuring will be carried through, for example based on a public announcement of the plan, or the restructuring must already be underway.

Provision for onerous contracts

A provision for onerous contracts is recognised for expected losses on a current contract and is measured at the present value of the expected costs of cancelling the contract or, if lower, the present value of the expected net costs of continuing the contract. Before a provision is recognised, the Group first recognises any impairment losses on the assets related to the contract.

Pensions and other post-employment benefits

The Group has two defined contribution schemes, based on what is known as the career-average system, for employees of the Dutch subsidiaries, for which premiums are payable to separately managed industry pension funds: *Pensioenfonds Metalektro* and *Pensioenfonds Metaal en Techniek*. These pension schemes are administered together with those of other legal entities. The associated businesses are not obliged to make good any deficits in the pension funds, nor are they entitled to any surpluses. As such, these pension schemes qualify as contribution schemes in the financial statements.

The Group has defined benefit schemes and early retirement schemes for employees of some German associates. The costs of the defined benefit pension schemes and early retirement schemes are calculated annually using actuarial methods by a qualified actuary, based on the projected unit credit method. Remeasurements that include actuarial gains and losses are recognised in other comprehensive income. Remeasurements are not taken to profit or loss in subsequent periods. The Group does not have any plan assets.
The interest balance is calculated by applying the discount rate to the net liability pursuant to the pension scheme as at the start of the financial year, allowing for movements in the net liability during the course of the financial year as a result of pension contributions and payments. Interest expense and other costs relating to the defined benefit schemes and early retirement schemes are presented in the income statement. If a pension scheme or early retirement scheme changes or its scope is restricted, the resulting changes in pension costs for past years of service are recognised in the income statement as at the date of the change or restriction.

Jubilee provisions

Employees of the Dutch and German associates are paid extra remuneration upon reaching certain numbers of years of employment. The costs of these jubilee commitments are based on actuarial calculations. For an overview of the assumptions used, please refer to item 15 of the Notes.

Share-based payment transactions

Members of the Board of Directors, as well as certain others of the Group's officers, receive remuneration in the form of share-based payment transactions, under which the employees concerned provide services in exchange for equity instruments (equity-settled transactions).

Equity-settled transactions

The costs of the equity-settled transactions with employees are stated at fair value as at the date of grant. The fair value is calculated based on the Black & Scholes model (for further information, please refer to item 16 of the Notes). The schemes applied are a share option scheme and a performance share scheme. The measurement of equity-settled transactions does not take into account any performance-related conditions. The measurement of equity-settled transactions does not take into account any performance-related conditions.

The costs of equity-settled transactions, together with corresponding increases in equity, are recognised during the period in which the conditions for performances and/or services are met, ending on the date on which the employees in question become fully entitled to the commitment (i.e. the date on which the commitment becomes unconditional). The cumulative costs recognised for equity-settled transactions as at the reporting date reflect the degree to which the waiting period has passed and the Group's best estimate of the number of equity instruments that will eventually become unconditional. The amount charged to the income statement for a particular period reflects the changes to the cumulative expense as recognised at the beginning and the end of that period. Any equity-settled commitments that are cancelled are regarded as being unconditional as at the cancellation date, and any as-yet unrecognised costs associated with that commitment are recognised immediately. However, if the cancelled commitment is replaced by a new commitment, and if that new commitment qualifies as a replacement commitment as at the date of grant, the cancelled and new commitments are regarded as constituting an amendment to the original commitment, as defined in the previous paragraph.

The dilution effect on outstanding options is made visible as an additional dilution of the shares in the calculation of the diluted earnings per share (please refer to item 21 of the Notes).

Revenue recognition

The Group's principal activity is to produce and assemble electronic components or systems. These main activities are also supported by development, prototyping and engineering activities, which are occasionally carried out separately for customers.

Revenues are recognised insofar as it is probable that the economic gains will accrue to the Group and the revenues can be calculated reliably. Revenues are calculated as the fair value of the consideration received, not including discounts, rebates or VAT. The following specific recognition criteria must also be met before revenues may be recognised.

Sales of goods

Revenues are recognised when the significant risks and benefits associated with ownership of the goods have been transferred to the buyer. After the production and assembly process has been completed, the end products are tested and delivered, depending on what has been arranged with the buyer. The moment at which revenue is recognised depends on the contractual agreements with the buyer, and is generally when the goods are delivered.

Services provided

Revenues from services provided, generally based on contractual agreements with terms of less than 12 months, are recognised based on the performances delivered, using a percentage-of-completion method. The stage of the performances rendered is determined by calculating the number of man hours worked as a percentage of the total estimated number of man hours required for each contract. Losses are taken when they are foreseeable.
Revenue from services provided represented approximately 4% of the Group's total revenue in the financial year 2017 (2016: approximately 5%).

Finance costs

The interest expense presented in this item is recognised according to the amortised cost based on the effective interest method.

Taxes

Taxes payable and available for offset

Tax assets and liabilities payable and available for offset for current and prior years are stated at the expected amount to be reclaimed from or paid to the tax authorities. The tax charge is calculated according to the tax rates and applicable tax legislation adopted by law as at the reporting date in the countries in which the Group generates taxable income. Current profit tax relating to items included directly in equity is taken to equity rather than to the income statement.

Management periodically assesses the positions adopted in the tax returns for situations involving multiple possible interpretations, and if necessary forms provisions.

Deferred taxes

Provisions are formed for deferred tax liabilities, based on the timing differences as at the balance sheet date between the carrying amounts of assets and liabilities for tax purposes and their carrying amounts as presented in these financial statements.

Deferred tax liabilities are recognised for all taxable timing differences, except in the following situations:

- 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, at the time of the transaction, does not affect the pre-tax profit or the taxable result;
- In the case of taxable timing differences pertaining to investments in subsidiaries:if the moment of settlement can be determined wholly independently, and if it is probable that the timing difference will not be settled in the near future.

Deferred tax assets are recognised for all timing differences that can be settled, unused tax facilities and tax losses available for offset, insofar as it is probable that taxable profits will be available against which the timing difference can be offset, and that the timing differences, unused tax facilities and tax losses available for offset can be utilised, except in the following situations:

- If the deferred tax asset 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, at the time of the transaction, does not affect the pre-tax profit or the taxable result;
- In the case of timing differences that can be settled and that pertain to investments in subsidiaries: if it is probable that the timing difference will not be settled in the near future and that taxable profits will be available against which the timing difference can be offset.

The carrying amount of the deferred tax assets is assessed as at the balance sheet date, and lowered to the extent that it is not probable that sufficient taxable profits will be available against which the timing difference can be offset, either in whole or in part. Unrecognised deferred tax assets are reassessed as at the balance sheet date, and recognised to the extent that it is probable that taxable profits will be available in the future against which the deferred tax asset can be offset.

Deferred tax assets and liabilities are stated at the tax rates that are expected to apply to the period during which the asset will be realised or the liability settled, based on the statutory tax rates and prevailing tax law. Tax on items recognised directly in equity is taken directly to equity rather than to the income statement.

Deferred tax assets and liabilities are offset against one another if there is a legally enforceable right to offset tax assets against tax liabilities and if the deferred taxes pertain to one and the same taxable entity and one and the same tax authority.

Government grants

Government grants are presented if there is a reasonable degree of certainty that the grants will be received and that all relevant conditions will be met. If the grant pertains to a cost item, the grant is recognised as income during the period needed to systematically allocate it to the costs for which the grant is intended. If the grant pertains to an asset, the fair value is taken to an accrued liabilities item, and is released to the income statements in equal annual instalments over the expected useful life of the asset in question.

3. IMPORTANT OPINIONS, ESTIMATES AND ASSUMPTIONS IN THE COMPILATION OF THE FINANCIAL STATEMENTS

For the purpose of compiling the Group's financial statements, the management is obliged to form opinions and make estimates and assumptions as at the balance sheet date that affect the reported income, expense, assets, liabilities and off-balance-sheet obligations. However, the inherent uncertainty in those assumptions and estimates may lead to results requiring material adjustment to the carrying amount of the asset or liability in question.

Opinions

When applying the accounting principles, the management formed the opinions set out below, which have the greatest impact on the amounts presented in the financial statements.

Pensions

The pension schemes for the employees in the Netherlands are insured with two industry pension funds. These collective schemes, which are based on what is commonly known as the career-average system, are administered with the schemes of other legal entities and are managed by *Bedrijfstakpensioenfonds Metalektro* and by *Pensioenfonds Metaal en Techniek*. The associated businesses are not obliged to make good any deficits in the pension funds, nor are they entitled to any surpluses. As such, these pension schemes qualify as contribution schemes in the financial statements.

Lease commitments – the Group as the lessee

The Group rents property and a number of other operating assets (cars) in order to carry out its activities. It is the Group's opinion that it does not possess the principal risks and benefits associated with the rental contracts for the property and other operating assets. As such, those contracts are presented as operational lease contracts.

Estimates and assumptions

The principal assumptions concerning the future and other important sources of estimation uncertainty as at the balance sheet date that carry with them significant risks of material changes to the carrying amounts of assets and liabilities in the following financial year are discussed below.

Fair values of assets and liabilities

Contingent income resulting from business combinations is stated at fair value as at the acquisition date, as part of the business combination. If the contingent income satisfies the definition of a financial liability, it is subsequently restated at fair value as at each reporting date. The fair value is determined based on the discounted cash flows. The principal assumptions allow for the probability that the performance targets will be achieved and for the discount rate.

Property, plant and equipment

The asset's residual value, economic life and measurement methods are assessed at the end of the financial year, and if necessary adjusted. No adjustments were made during the financial year.

Impairment losses on goodwill

At least once every year, the Group ascertains whether its goodwill has been subject to any impairment losses. This requires estimating the value in use of the cash-generating units with which the goodwill is associated. To estimate these values in use, the Group must first estimate the expected future cash flows arising in connection with the cash-generating unit, as well as determining an appropriate discount rate, in order to calculate the discounted values of those cash flows. The carrying amount of the goodwill as at 31 December 2017 was € 2.8 million (2016: € 2.8 million). For further information, please refer to item 6 of the Notes.

Deferred tax assets

Insofar as it is probable that the Group will have taxable profits against which the losses can be offset, deferred tax assets are presented for all tax losses that have not previously been offset. Determining the amount that may be presented as deferred tax assets calls for a considerable degree of management opinion, based on the probable time and volume of future taxable profits, combined with future tax planning measures. The carrying amount of the deferred tax asset for tax losses accounted for as at 31 December 2017 was € 5.3 million (2016: € 5.6 million). As at 31 December 2017, all tax losses in Germany are recognised in the statement of financial position. For further information, please refer to item 7 of the Notes.

Inventories
The valuation of inventories includes an assessment of the possibility of obsolescence. Estimates are made to this end based on both historical and future revenues. Future revenues are based on covered orders in the future. As at 31 December 2017, the allowance for write-downs of raw materials and consumables was € 10.3 million (2016: € 10.7 million).

Warranty provision
The calculation of this provision involves assumptions and estimates concerning the projected costs of repair of products returned by buyers and the numbers of products that will be returned. For further information, please refer to item 14 of the Notes.

Provision for onerous contracts
The calculation of this provision involves assumptions and estimates concerning the projected costs of repair of products returned by buyers and the numbers of products that will be returned.

Pension and jubilee provisions
The costs of defined benefit pension schemes, early retirement schemes and jubilee schemes are calculated according to actuarial methods. The actuarial methods consist of making assumptions about discount rates, future pay rises, mortality rates and future indexation of pension benefits. Such estimates are very uncertain, owing to the long-term nature of the schemes. All assumptions are reviewed each reporting date. The net liability at 31 December 2017 was € 5.1 million (2016: € 5.3 million). For further information, please refer to item 15 of the Notes.

4 STANDARDS AND INTERPRETATIONS NOT YET APPLIED

During 2017, Neways reviewed the standards and interpretations IFRS 9, IFRS 15 and IFRS 16, which are not yet applied. Neways has not opted for early application of the following new or amended standards in preparing its consolidated financial statements.

IFRS 9 presents revised requirements for the classification and measurement of financial instruments, including a new model for expected credit losses and new general hedge accounting requirements. IFRS 9 is effective for financial years commencing on or after 1 January 2018. Neways does not apply hedge accounting. Neways does not expect the adoption of IFRS 9 to have a material effect on its financial statements.

IFRS 15 introduces a detailed framework for determining whether, how much and when revenue is required to be recognised. The standard replaces the existing guidance on revenue recognition, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.
The estimated impact of applying the new reporting standard for revenue recognition on the consolidated financial statements of the Group is based on assessments performed to date and is summarised below. We are unable to state the actual impact yet at the present time. We expect that the impact on total net proceeds in 2018 will be between 0 and 2% and the impact on total net profit will be between 0 and 5% due to a shift in the timing of revenue recognition.

Sales of goods
Revenue from the sale of goods is currently recognised when the goods are delivered to the customer location; this is viewed as the point in time when the customer accepts the goods as well as the risks and benefits relating to the transfer of ownership. Revenue is recognised at that time, provided the revenue and expenses can be measured reliably, the collection of the payment receivable is probable and there is no continuing managerial involvement with the goods.

Under certain contracts, the goods are delivered to a consignment warehouse of the customer. Revenue from those contracts is recognised when the goods are removed from the warehouse by the customer. The Group expects that the implementation of IFRS 15 will not lead to significant changes in the timing of revenue recognition for these contracts.

For a contract under which the customer has the option of returning products on the basis of an individual warranty agreement, a provision for warranties is recognised for these specific products that is charged to revenue based on cost. IFRS 15 requires two performance obligations to be recognised for these contracts, i.e. the delivery of the product and the specific warranty obligation. Revenue for the warranty obligation is recognised over the duration of the warranty period. Owing to the small margins, the estimated impact on retained earnings as at 1 January 2018 arising from the change in accounting policy for these contracts will between 0 and 1%.

Services provided
Revenue recognition is currently based on the stage of completion and comprises the amount initially agreed in the contract plus any variations in the contract work insofar as it is probable that these will result in revenue and can be reliably measured.

The Group expects that the implementation of IFRS 15 will not lead to significant changes in the timing of revenue recognition for these services.

Transition

The Group intends to apply IFRS 15 using the cumulative effect method, recognising the effect of initially applying this standard at the date of initial application (i.e. 1 January 2018). Therefore the Group will not apply the requirements of IFRS 15 to the comparative period presented.

IFRS 16 replaces the existing requirements concerning leases, including IAS 17 Leases, removing the distinction between operating leases and finance leases and thus resulting in balance sheet recognition of almost all leases. The changes are effective for financial years commencing on or after 1 January 2019. Neways has started an initial assessment of the possible effect on its consolidated financial statements. At present, the most significant effect is that Neways will recognise new assets and liabilities for its operating lease for the buildings and cars used in operations. In addition, the nature of the expenses recognised will change. Instead of expenses for operating leases recognised on a straight-line basis, IFRS 16 requires recognition of depreciation charges for the right of use of the underlying assets and interest expense for the lease liabilities. This is expected to have a material effect on the financial statements. See Note 23. Neways has not decided yet whether it will elect to make use of the available exemptions.

Other changes

The following new or amended standards are not expected to have a significant impact on the consolidated financial statements of the Group.

- Annual improvements to IFRS 2014-2016 cycle – amendments to IFRS 1 and IAS 28.
- Classification and measurement of share-based payments (amendments to IFRS 2).
- Transfer of investment property (amendments to IAS 40).
- Sales or contributions of assets between an investor and its associate/joint venture (amendments to IFRS 10 and IAS 28).
- IFRIC 22 Foreign currency transactions and advance consideration.
- IFRIC 23 Uncertainty over income tax treatments.

5. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment are shown in the following table:

Amounts x € 1,000	Land and buildings	Plant and equipment	Total
Acquisition value:			
Balance as at 1 January 2016	**24,173**	**78,903**	**103,076**
Acquisitions	98	6,105	6,203
Disposals	–68	–1,524	–1,592
Disposed	0	36	36
Exchange differences	0	–34	–34
Balance as at 31 December 2016	**24,203**	**83,486**	**107,689**
Acquisitions	173	8,740	8,913
Disposals	–15	–3,749	–3,764
Exchange differences	37	20	57
Balance as at 31 December 2017	**24,398**	**88,497**	**112,895**

Amounts x € 1,000	Land and buildings	Plant and equipment	Total
Depreciation and impairments:			
Balance as at 1 January 2016	**7,390**	**60,886**	**68,276**
Depreciation charge for the financial year	754	5,497	6,251
Disposals	–68	–1,440	–1,508
Disposed	0	421	421
Exchange differences	0	0	0
Balance as at 31 December 2016	**8,076**	**65,364**	**73,440**
Depreciation charge for the financial year	709	6,668	7,377
Disposals	–15	–3,743	–3,758
Disposed	0	0	0
Exchange differences	17	162	179
Balance as at 31 December 2017	**8,787**	**68,451**	**77,238**
Carrying amount:			
As at 31 December 2017	15,611	20,046	35,657
As at 31 December 2016	16,127	18,122	34,249
As at 1 January 2016	16,783	18,017	34,800

The carrying amount for property, plant and equipment includes € 0.7 million for assets under construction (31 December 2016: € 0.0 million). These assets under construction are not depreciated. Property, plant and equipment include leased plant and equipment representing a carrying amount as at 31 December 2017 of € 0.3 million (31 December 2016: € 0.5 million). Credit suppliers have established pledges on plant and equipment. For further information, please refer to item 13 of the Notes.

6. INTANGIBLE ASSETS

The movements in intangible assets are shown in the following table:

Amounts x € 1,000	Software	Goodwill	Customer relationships	Total
Acquisition value:				
Balance as at 1 January 2016	**10,422**	**2,798**	**8,386**	**21,606**
Acquisitions	1,363	0	0	1,363
Balance as at 31 December 2016	**11,785**	**2,798**	**8,386**	**22,969**
Acquisitions	68	0	0	68
Balance as at 31 December 2017	**11,853**	**2,798**	**8,386**	**23,037**

Amounts x € 1,000	Software	Goodwill	Customer relationships	Total
Amortisation and impairments:				
Balance as at 1 January 2016	**3,978**	**44**	**3,510**	**7,532**
Amortisation	1,109	0	856	1,965
Balance as at 31 December 2016	**5,087**	**44**	**4,366**	**9,497**
Amortisation	836	–	846	1,682
Balance as at 31 December 2017	**5,923**	**44**	**5,212**	**11,179**
Carrying amount:				
As at 31 December 2017	5,930	2,754	3,174	11,858
As at 31 December 2016	6,698	2,754	4,020	13,472
As at 1 January 2016	6,444	2,754	4,876	14,074

The customer relationships comprise customer orders and customer bases acquired through business combinations in 2014, resulting from the process of recognition and identification of all identifiable intangible assets acquired through the takeover. Customer orders are amortised over periods of 1-2 years, while customer bases are amortised on a straight-line basis over periods of 5-10 years.

The estimated amortisation of customer relationships for the next four years is as follows:
- 2018: € 0.8 million
- 2019: € 0.7 million
- 2020: € 0.5 million
- 2021: € 0.5 million

Software is amortised on a straight-line basis, over periods of 5 to 10 years. If anything indicates an impairment, an estimate is made of the recoverable amount and an impairment loss is recognised if the recoverable amount is less than the carrying amount.

The carrying amount of the software as at 31 December 2017 includes a sum of € 4.2 million (31 December 2016: € 4.7 million) for costs of the Infor-LN project; amortisation takes place over a period of 10 years and commenced when it was taken into use in the third quarter of 2016. As at the balance sheet date, it was established that the carrying amount of this software has not undergone any impairment.

Impairment testing of goodwill

The cash-generating unit to which this goodwill resulting from business combinations is allocated consists of the Western European production companies within the Group. All legal entities within the Group are intrinsically connected and therefore represent a single cash-generating unit.

The Group performed the annual impairment test on 31 December 2017. As at 31 December 2017, the Group's stock market capitalisation exceeded the carrying amount of its equity.

The recoverable amount of the goodwill is calculated based on the value in use. The calculation of this value uses the future cash flows, based on the financial budgets and forecasts of the cash-generating unit over a period of five years. The discount rate (before tax) used for this purpose is 13.5% (2016: 13.5%). The cash flows beyond the 5-year period have been extrapolated using a growth rate of 2% (2016: 2%).

Important assumptions in the calculation of the value in use

The calculation of the value in use of the cash-generating unit is most sensitive to the following assumptions:
- Operating results
- Discount rates
- Growth rate used for extrapolating cash flows after the budgeted period.

Operating results

The operating results as a percentage of revenue are based on the average realised values as they developed during the past three years, plus projected efficiency improvements during the budgeted period.

Discount rates

Discount rates represent management's current market assessment of the specific risks associated with the cash-generating unit. They constitute the measure that management uses in assessing the operational performances and assumptions for future investments. The discount rate after tax that is used is 11.4% (2016: 11.4%), which is derived from the average rate of the weighted average cost of capital (WACC).

Sensitivity to changes in assumptions

For the assessment of the value in use of the cash-generating unit, management believes that reasonable changes in one or more of the important assumptions as defined above will not cause the carrying amounts of the cash-generating units to materially exceed their recoverable amounts. The value in use is substantially higher than the carrying amount of the cash-generating units. The consequences of the principal assumptions for the recoverable amount are explained below.
- Operating results: An increase in operating results of no more than 2% per year from 2018 forward will not lead to any impairment.
- Discount rates Discount rates: A discount rate (after tax) of 15% will not lead to any impairment.

Growth rate

Using a 0% growth rate for the operating results after the 5-year period will not cause grounds for an impairment.

7. TAXES

Amounts x € 1,000	Consolidated balance sheet		Consolidated income statement		Other comprehensive income	
	2017	2016	2017	2016	2017	2016
Deferred tax assets						
Available from tax losses	5,263	5,619	–356	1,159		0
Intangible assets	234	331	–97	331		0
Financial assets	149	129	20	129		0
Pensions	499	555	–38	360	–18	154
Other valuation differences	472	205	267	205		0
Total deferred tax assets	**6,617**	**6,839**	**–204**	**2,184**	**–18**	**154**
Deferred tax liabilities						
Intangible assets	–321	–273	–48	–48		
Customer relationships	–952	–1,206	254	257		
Property, plant and equipment	–774	–1,070	296	343		
Inventories	–355	–265	–90	–131		
Other provisions	–292	–258	–34	–258		
Other valuation differences	–273	–229	–44	–142		
Total deferred tax liabilities	**–2,967**	**–3,301**	**334**	**21**	**0**	**0**
Net deferred tax asset	**3,650**	**3,538**	**130**	**2,205**	**–18**	**154**
Presented as follows on the face of the balance sheet:						
Deferred tax assets	4,352	4,293				
Deferred tax liabilities	–702	–755				
Net deferred tax asset	**3,650**	**3,538**				

The tax rate in the consolidated income statement can be broken down as follows:

Amounts x € 1,000	2017	2016
Tax on income for the financial year		
Current tax charge	–3,959	–2,692
Adjustment of tax charge for previous years	58	258
Deferred taxes:		
In connection with the emergence and reversal of timing differences	485	642
Recognition of previously unrecognised tax losses	655	1,819
Tax on income presented in consolidated statement of profit or loss	**–2,761**	**27**
Deferred taxes on items presented in other comprehensive income		
Tax gains/losses on defined benefit schemes	–18	154
Tax on income presented in other comprehensive income	**–18**	**154**

The tax charge at the rate applicable in the Netherlands can be reconciled with the effective tax charge for the Group according to the following table:

Amounts x € 1,000	2017	2016
Profit before tax	**12,681**	**9,667**
Taxes at the applicable Dutch rate of 25.0%	–3,160	–2,407
Adjustment of tax charge for previous years	58	259
Non-deductible expenses	–68	–144
Innovation box benefit	0	110
Effect of other tax rates at non-Dutch subsidiaries	–166	–62
Losses of current financial year for which no deferred tax asset has been recognised	–80	–190
Recognition of previously unrecognised timing differences available for set-off	0	642
Recognition of previously unrecognised tax losses	655	1,819
Tax on income presented in consolidated statement of profit or loss	**–2,761**	**27**

The Group recognises deferred tax assets totalling € 5.3 million (31 December 2016: € 5.6 million), which pertain in their entirety to tax-loss carry-forwards representing total available losses of € 17.5 million (31 December 2016: € 18.7 million). The entire € 17.5 million asset pertains to losses offsettable in Germany. The measurement of the available losses is based on an estimate of the projected profits to be realised over the coming four years. As at 31 December 2017, all tax losses in Germany are recognised in the statement of financial position. These available losses in Germany, generated by Neways Deutschland GmbH, can be carried forward indefinitely.

Further, no deferred tax assets have been recognised for the tax losses in China amounting to € 0.7 million (31 December 2016: € 1.1 million), as it is not yet probable at the present time that future taxable profits will be realised whose benefits the Group can utilise.

The Company is included in a fiscal unity for corporate income tax purposes, together with its wholly owned associates domiciled in the Netherlands. In concert with those associates, the Company is jointly and severally liable for all corporate income tax debts.

The effective tax rate, i.e. the ratio between taxes and profit before corporate income tax, was 26.9% (2016: 18.5%), without taking into account the recognition of previously unrecognised tax losses amounting to € 0.6 million (2016: € 1.8 million) at the German subsidiaries. This effective tax rate differs from the corporate income tax rate of 25% prevailing in the Netherlands in 2017, mainly due to a higher tax rate in Germany. The Group's areas of activity are the Netherlands, Germany, Slovakia, the Czech Republic and China, where the tax rates for 2017 are as follows: 25% (Netherlands), 30% (Germany), 21% (Slovakia), 19% (Czech Republic) and 25% (China).

8. INVENTORIES

The allowance recognised for write-downs of raw materials and consumables is € 10.3 million (2016: € 10.7 million). The net movement in the allowance was -/- € 0.4 million. The allowance pertains primarily to materials intended for products that are no longer produced and supplied, but that are kept in stock and used occasionally. The Group does not possess any inventories that are stated at the lower net recoverable value. Credit suppliers have established pledges on the inventories. For further information, please refer to item 13 of the Notes.

9. TRADE AND OTHER RECEIVABLES

Amounts x € 1,000	2017	2016
Trade and other receivables	49,475	46,291
Related parties	3,811	2,179
Total	**53,286**	**48,470**

For the conditions that apply to receivables from related parties, please refer to item 22 of the Notes.

Trade receivables do not include any receivables with terms to maturity of more than 12 months. Credit suppliers have established pledges on the trade receivables. No interest is charged on trade receivables, which generally have payment terms of 30 to 90 days.

As at 31 December 2017, trade receivables with a nominal value of € 0.9 million (2016: € 0.9 million) had been impaired, and an allowance was made for the entire amount. Allowances for receivables are determined individually.

The movements in the allowance for impairments of receivables are as follows (for more information about the credit risk, see item 24 of the Notes):

Amounts x € 1,000	2017	2016
Balance as at 1 January	**892**	**809**
Charges for the financial year	264	397
Write-downs	–103	–45
Reversals for unused amounts	–198	–269
Balance as at 31 December	**855**	**892**

The analysis of overdue receivables not subject to impairment as at 31 December can be summarised 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
2017	53,286	46,445	4,376	707	631	345	782
2016	48,470	43,760	3,243	832	330	185	120

10. CASH AND CASH EQUIVALENTS

The cash and cash equivalents are freely available.

11. EQUITY

For a summary of the various equity components and the movements in those components between 31 December 2016 and 31 December 2017, please refer to the consolidated statement of changes in equity.

Capital

The authorised capital as at 31 December 2017 was € 15,000,000, divided into 30,000,000 ordinary shares with a nominal value of € 0.50 each. Of that number, 11,481,301 ordinary shares had been issued and paid in as at 31 December 2017, bringing the paid-in capital to € 5,740,651. The movements in the increase in the number of issued and paid-in ordinary shares during the 2016 and 2017 financial years can be broken down as follows:

Numbers x 1,000	Notes	Ordinary shares issued and paid in
1 January 2016		**11,401**
Issued in exchange for cash payment upon exercise of share options	16	58
31 December 2016		**11,459**
Issued in exchange for cash payment upon exercise of share options	16	22
31 December 2017		**11,481**

Convertible bonds

The share premium includes an amount that has been attributed to the equity component of the convertible bonds that the Group issued in 2014 (see Consolidated statement of changes in equity).

Translation reserve

The translation reserve comprises both the foreign exchange differences stemming from the translation of the financial statements of the non-Dutch subsidiaries, and the foreign exchange differences originating from the translation of permanently invested loans to non-Dutch subsidiaries that serve to finance those non-Dutch subsidiaries and for which no repayments are foreseen.

12. DIVIDENDS 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 € 0.35 per share be distributed for the 2017 financial year. The dividend will be paid in cash.

Amounts x € 1,000	2017	2016
Declared and paid during the year		
Dividend on ordinary shares:		
Final dividend for 2016: € 0.34 (2015: € 0.11)	3,902	1,254
Proposed for the approval of the General Meeting of Shareholders		
Dividend on ordinary shares:		
Final dividend for 2017: € 0.35 (2016: € 0.34)	4,018	3,896

13. OTHER FINANCIAL LIABILITIES

Amounts x € 1,000	Effective interest rate	Maturity date	Outstanding amount 2017	Outstanding amount 2016
Current				
Money loans	5.0%		0	10
Financial lease	3.4% – 3.6%	2018	172	165
Bank overdrafts	Euribor + (1.4% – 2.3%)	On demand	32,944	19,890
Other current borrowings				
Bank loans	Euribor + (1.5% – 2.4%)		0	4,974
Bank loans	4.2%	31 Mar. 2018	200	800
Total current interest-bearing borrowings			**33,316**	**25,839**
Long-term				
Financial lease	3.4% - 3.6%	2019	33	218
Other long-term borrowings				
Bank loans	4.2%		0	200
Convertible subordinated loans	4.6%	30 Sep. 2019	4,937	4,924
Total long-term interest-bearing borrowings			**4,970**	**5,342**

Money loans (5.0%)

These are loans with terms of 5 years, for which a first pledge has been established on business equipment. They are repaid in monthly instalments, based on the annuity method. The final repayment took place in 2017.

Financial lease (3.4%-3.6%)
These comprise loans with terms of 4 years. They are repaid in monthly instalments, based on the annuity method.

Bank overdrafts
The credit facilities available as at 31 December 2017 (overdraft and committed facilities) total € 52.5 million (interest rate: Euribor + 1.4%-2.3%, depending on the net debt/EBITDA ratio). As at the balance sheet date, € 33.2 million of the credit facility was in use for overdrafts and bank guarantees (31 December 2016: € 20.6 million). Redemption of the debts to the financial institutions is secured by means of a pledge established on business equipment, inventories, receivables and entitlements under the credit insurance policy. The total value of the pledge as at 31 December 2017 was approximately € 160 million. All Dutch and German Group companies have issued statements of joint and several liability to the financial institutions on the Company's behalf. The financial institutions also believe it necessary for the guaranteed capital (adjusted for the net deferred tax assets and intangible assets) amounts to at least € 55 million and that EBITDA is not lower than € 10 million as at 31 December 2017. Further details about the bank covenants with financial institutions are provided in item 24 of the Notes.

Bank loans (Euribor + 1.5%-2.4%)
During the 2014 financial year, the Group took out new bank loans to finance its acquisition of the BuS Group, to be repaid in five semi-annual instalments of € 2.5 million. Redemption of the debts to the financial institutions is secured by means of a pledge established on business equipment, inventories, receivables and entitlements under the credit insurance policy. The finance costs associated with taking out these loans have been capitalised and will be amortised over the terms of the loans. The final repayment took place in 2017.

Bank loans (4.2%)
This is a bank loan with a maturity date of 31 March 2018, which is repaid in instalments of € 0.2 million per quarter.

Convertible subordinated loans (4.6%)
The convertible subordinated loans taken out in 2014, with a nominal value of € 5 million, carry a conversion rate of € 8.50 per share and a conversion right that may be exercised between 30 September 2017 and 30 September 2019. The nominal interest rate is 4%.

Repayments on the principal sums of these borrowings are subordinated in respect of all other existing and future debts to third parties. As at 31 December 2017, a sum of € 0.1 million is recognised as a call option in equity, under share premium.

Fair values
The fair values of all the Group's financial instruments approximate the respective carrying amounts. The fair values of cash, trade receivables, other receivables, trade payables and other payables approximate the carrying amounts, chiefly because of their short terms to maturity. Bank overdrafts are payable on demand.

Hierarchy of fair values
The Group uses the following hierarchy for determining and disclosing financial instruments, distinguished by method of measurement.
Level 1: quoted (unadjusted) prices on active markets for identical assets or liabilities
Level 2: other methods in which all variables have a significant impact on the fair value recognised and are directly or indirectly observable
Level 3: methods in which all variables are used that have a significant impact on the fair values recognised but are not based on observable market data.
For the 2016 and 2017 financial years, the Group did not use any financial instruments that are measured at fair value.

For recurring assets and liabilities presented in the financial statements, the Group determines at the end of each reporting period whether a reassessment requires a different categorisation within the hierarchy (based on the input from the lowest level with significance for the entire measurement). No transfers between Level 1 and Level 2 occurred during the reporting period.

14. PROVISIONS

The movements in the item for provisions during 2017 can be summarised as follows:

Amounts x € 1,000	Warranty provision	Restructuring provision	Onerous contracts	Claims provision	Total
Balance as at 1 January 2017	**835**	**46**	**321**	**0**	**1,202**
Addition for the period	698	0	871	150	1,719
Utilised	–387	–46	–321	0	–754
Released	0	0	0	0	0
Balance as at 31 December 2017	**1,146**	**0**	**871**	**150**	**2,167**
Current	229	0	871	150	1,250
Long-term	917	0	0	0	917

Warranty provision

The provision for warranties covers repairs for products that are returned by buyers. The estimated amount and duration of the provision are based on the warranty dates for the years 2011 to 2017.

Restructuring provisions

The restructuring was completed in 2017.

Onerous contracts

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

Claims provision

The provision for claims relates to a dispute in which the Company is involved.

15. PENSIONS, EARLY RETIREMENT AND JUBILEE

Pension provisions

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

The pension schemes for the employees in the Netherlands are insured with two industry pension funds. These collective schemes, which are based on what is commonly known as the career-average system, are administered with the schemes of other legal entities and are managed by *Bedrijfstakpensioenfonds Metalektro* and by *Pensioenfonds Metaal en Techniek*. The associated businesses are not obliged to make good any deficits in the pension funds, nor are they entitled to any surpluses. As such, these pension schemes qualify as contribution schemes in the financial statements. At year-end 2017, the coverage ratio of Bedrijfstakpensioenfonds Metalektro was 101.6% (2016: 96.2%) while that of Pensioenfonds Metaal en Techniek was 102.1% (2016: 97.2%). The coverage ratios of both funds fall short of the coverage ratios required according to the recovery plans. The pension funds have approved recovery plans in place, under which the coverage ratios will be restored to the required levels by various measures, such as refraining from future indexation of pensions, lowering pensions and increasing pension contributions, and for which no additional contributions are required from the enterprise at present.

A supplementary pension scheme applies for some employees in the Netherlands, which is administered by Zwitserleven. This pension scheme is qualified as a contribution scheme. There is no obligation to make good any deficits.

The pension scheme for employees in Germany consists of self-administered commitments and qualifies as a defined benefit plan (without plan assets). This pension scheme is a final-pay scheme, where the amount of the benefits depends on the years of service and the employee's salary at the retirement date. The participants are not required to contribute to the pension scheme. As security for fulfilment of the existing pension commitments, the employer remits the statutory contributions to the emergency fund (*Pensionsversicherungsverein*). If the company goes into bankruptcy, the pension commitments will be assumed by that emergency fund. The pension commitments are calculated and accounted for in accordance with IAS 19. The pension scheme is exposed to interest rate risks and changes in the life expectancy of retired participants.

Early retirement schemes

An early retirement scheme is in place for some of the employees in Germany. The last participants opted for this in 2017. The payments and contributions for early retirement have been presented in accordance with IAS 19.

Jubilee provision

The employees in the Netherlands receive additional remuneration when they reach a certain number of years of employment. The commitments for these jubilee benefits are recognised in accordance with IAS 19.

The movements in the discounted value of the commitment for pensions, early retirement and jubilee charges during the financial year were as follows:

Amounts x € 1,000	Pension provisions		Early retirement provisions		Jubilee provision		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Balance as at 1 January	**4,347**	**3,976**	**69**	**166**	**906**	**772**	**5,322**	**4,914**
Expenses allocated to the financial year	27	22	0	0	159	214	186	236
Interest expense	63	92	0	0	0	0	63	92
Realised actuarial (gains)/losses	0	0	0	0	0	0	0	0
Past-service costs	0	0	0	0	0	0	0	0
Benefits paid	–172	–171	–69	–97	–105	–80	–346	–348
Employer contributions	–58	–85	0	0	0	0	–58	–85
Total	**–140**	**–142**	**–69**	**–97**	**54**	**134**	**–155**	**–105**
Revaluation gains/losses presented in other comprehensive income:								
Adjustments stemming from changes to financial assumptions	–8	609	0	0	0	0	–8	609
Experience adjustments	–53	–96	0	0	0	0	–53	–96
Demographic adjustments	0	0	0	0	0	0	0	0
Total	**–61**	**513**	**0**	**0**	**0**	**0**	**–61**	**513**
Balance as at 31 December	**4,146**	**4,347**	**0**	**69**	**960**	**906**	**5,106**	**5,322**

The total cost in the consolidated statement of comprehensive income of the schemes for pensions, early retirement and anniversaries can be broken down as follows:

Amounts x € 1,000		Pension provisions		Early retirement provisions		Jubilee provision		Total
	2017	2016	2017	2016	2017	2016	2017	2016
Expenses taken to the income statement:								
Expenses allocated to the financial year	27	22	0	0	159	214	186	236
Interest expense	63	92	0	0	0	0	63	92
Realised actuarial (gains)/losses	0	0	0	0	0	0	0	0
Past-service costs	0	0	0	0	0	0	0	0
Subtotal in the income statement	**90**	**114**	**0**	**0**	**159**	**214**	**249**	**328**
Revaluation gains/losses presented in other comprehensive income:								
Adjustments stemming from changes to financial assumptions	–8	609	0	0	0	0	–8	609
Experience adjustments	–53	–96	0	0	0	0	–53	–96
Demographic adjustments	0	0	0	0	0	0	0	0
Total of pension and jubilee charges	**29**	**627**	**0**	**0**	**159**	**214**	**188**	**841**

The Group expects to contribute € 39,000 to the defined benefit schemes in 2018 (2017: € 58,000). The average duration of the commitment under the defined benefit schemes as at 31 December 2017 was 11.4 years (2016: 12.2 years).
The adjustments deriving from changes in financial assumptions were limited in 2017, as the discount rate was unchanged from 2016.
The adjustments stemming from changes to financial assumptions, totalling € 609,000 in 2016, are primarily the result of the decrease in the discount rate from 2.4% in 2015 to 1.5% in 2016.

Important assumptions used in the actuarial calculations for the schemes for the pension commitments for the German employees:

	2017	2016
Discount rate	1.5%	1.5%
Future wage increases	0.0%	0.0%
Future pension increases	1.75%	1.75%
Remaining life expectancy of retired participants (years)	11.4	11.8

Quantitative sensitivity analysis of the important assumptions used in the actuarial calculations for the schemes for the German employees as at 31 December 2017:

Amounts x € 1,000	Discount rate		Future wage increases		Future pension increases		Life expectancy of retired participants	
Sensitivity	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease	1 year increase	1 year decrease
Impact on the liability	–262	292	0	0	232	–212	264	–255

Important assumptions used in the actuarial calculations for the schemes for the jubilee commitments for the Dutch employees:

	2017	2016
Discount rate	1.5%	1.5%
Departure rate	43%	25%

Quantitative sensitivity analysis of the important assumptions used in the actuarial calculations for the schemes for the Dutch employees as at 31 December 2017:

Amounts x € 1,000	Discount rate		Departure rate	
Sensitivity	0.5% increase	0.5% decrease	5% increase	5% decrease
Impact on the liability	–39	43	–81	82

These sensitivity analyses are based on an extrapolation of the effect of reasonable changes to the important assumptions at the end of the reporting year on the liability stemming from the defined benefit scheme and the jubilee commitments. The 2017 cost for the pension schemes presented as defined contribution plans for the employees in the Netherlands was € 3,942,000 (2016: € 3,579,000). The payments for 2018 are projected to be approximately the same.

16. SHARE-BASED PAYMENT ARRANGEMENTS

The Neways Group has a share option scheme for the members of the Board of Directors and a select group of other executives who have been in the employ of the Neways Group for at least twelve months before the year of grant. This scheme provides for grants of non-transferable options to shares in Neways. The options may be exercised three years after grant, for a period of two years, which means that their total life is five years. Options can only be exercised by converting them into shares. If an option holder leaves the Group, his option rights lapse.

During the financial year, 75,000 options were granted, with an exercise price of € 11.71 per share, exercisable between 18 April 2020 and 18 April 2022. A total of 22,500 options were exercised during the financial year. The fair value of the options granted before 31 December 2016 was € 196,389. The weighted average fair value per option was € 1.20. Of this amount, € 48,021 is recognised as an expense in the income statement (2016: € 45,093). The fair value of the options granted during the financial year was € 121,409. The fair value per option was € 1.62. Of this amount, € 28,495 (2016: € 17,067) is recognised as an expense in the income statement. The average stock exchange price of Neways shares during 2017 was € 12.36 (2016: € 7.86).

The following table sets out the movements and exercise price of the share options.

Option holders	Balance as at 31/12/2016	Granted 2017	Lapsed 2017[1]	Exercised 2017	Balance as at 31/12/2017	Exercise price (in €)	Maturity
H.W.T. van der Vrande	125,000[2]				125,000	6.00	12/2019
	15,000				15,000	7.05	04/2019
	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	7.10	04/2021
		15,000			15,000	11.71	04/2022
A.A.H. van Bragt	5,000			–5,000	0		
	15,000				15,000	9.79	04/2020
	15,000				15,000	7.10	04/2021
		15,000			15,000	11.71	04/2022
Other officers in the Group's employ	2,500			–2,500	0		
	15,000			–15,000	0		
	15,000		–5,000		10,000	9.79	04/2020
	22,500				22,500	7.10	04/2021
		30,000			30,000	11.71	04/2022
Total	**275,000**	**75,000**	**–5,000**	**–22,500**	**322,500**		

1) The weighted average price on the exercise dates of these options was € 12.96.
2) Options on shares held by major shareholders.

The table below sets out the assumptions used in calculating the fair value of the options granted during the financial year.

	2017	2016
Dividend yield (%)	3.68	2.09
Expected price-sensitivity of the share (%)	28.47	31.53
Risk-free interest rate (%)	–0.78	0.00
Expected life of the options (in years)	3.50	3.50
Expected exercise behaviour of the options (%)	73.00	73.00

Following approval by the General Meeting of Shareholders on 18 April 2017, the Group introduced a 'performance share plan' under which a conditional award of performance shares in the company was made to the members of the Board of Directors and a select group of key executives.

Performance shares vest at the end of a three-year performance period, subject to (i) the achievement of financial targets set in advance that adequately reflect the company's long-term objectives and (ii) continuation in office as member of the Board of Directors, or key executive ('participant'). The proportion awarded is allocated on a straight-line basis between the minimum level (50% of award) and the maximum level (200% of award).
If a participant leaves the employment of the company during the three-year performance period, any unvested performance shares will lapse.

Before the final award, performance shares provide no rights on shares held, such as dividend and voting rights. Vested performance shares awarded to participants are required to be held by those participants during a period of two years thereafter.

A total of 37,241 performance shares (based on 100% target) were awarded during the financial year. The fair value of the options granted during the financial year was € 447,782. The fair value per option was € 12.02. Of this amount, € 105,726 is recognised as an expense in the income statement.

The following table sets out the movements of the performance shares outstanding on achievement of the targeted performance.

Number	2017
Balance as at 1 January	**0**
Addition for the period	37,241
Lapsed during the year	1,071
Balance as at 31 December	**36,170**

The table below sets out the assumptions used in calculating the fair value of the options granted during the financial year.

	2017
Dividend yield (%)	3.61
Expected price-sensitivity of the share (%)	28.47
Risk-free interest rate (%)	–0.78
Expected life of the options (in years)	3.00
Expected to vest (%)	100.00

The calculation of the fair value of the options as at the date of grant uses the Black & Scholes model.

The expected price-sensitivity of the share is based on the assumption that past price-sensitivity serves as an indicator for future trends. The expected life is based on historical data concerning the lapsing of options. Management is of the opinion that any changes to one or more of these assumptions will not cause the fair values of the share options to differ significantly from the fair values as calculated.

17. TRADE AND OTHER PAYABLES

Amounts x € 1,000	2017	2016
Trade payables	50,151	46,047
Other payables	14,952	16,398
Interest payable	78	83
Related parties	911	737
Total	**66,092**	**63,264**

The conditions for these financial obligations are as follows:

- Trade payables are not subject to interest, and generally have payment periods of approximately 60 days.
- Other payables are not subject to interest and have an average payment period of 6 months.
- The interest payable is generally settled on a quarterly basis during the financial year.
- For the conditions for related parties, please refer to item 22 of the Notes.
- For an explanation of the credit risk policy adopted by the Group, please refer to item 24 of the Notes.

18. EMPLOYEE EXPENSES

Amounts x € 1,000	Notes	2017	2016
Wages and salaries		102,011	90,916
Pension charges		4,055	4,326
Other social expenses		14,301	12,593
Costs of share option and performance share schemes	16	182	62
Total employee expenses		**120,549**	**107,897**

The Group had an average of 2,750 employees during 2017 (2016: 2,565). This number also includes temporary workers. A total of 2,358 (2016: 2,338) employees were actually employed at Neways. Of the total workforce, an average of 1,727 employees worked for non-Dutch subsidiaries (2016: 1,624). The breakdown by groups was as follows:

Average numbers in FTEs	2017	2016
General administration	383	369
Engineering and development	434	413
Logistics	232	216
Production	1,514	1,389
Warehouse	187	178
Total	**2,750**	**2,565**

19. DEPRECIATION AND AMORTISATION

Amounts x € 1,000	2017	2016
Depreciation on property, plant and equipment	7,377	6,251
Amortisation on intangible assets	1,682	1,965
Total depreciation and amortisation	**9,059**	**8,216**

20. FINANCE COSTS

Amounts x € 1,000	2017	2016
Interest on loans and bank overdrafts	1,329	1,347
Net foreign exchange differences	120	239
Other	171	527
Total finance costs	**1,620**	**2,113**

21. EARNINGS PER SHARE

Ordinary earnings per share

The ordinary earnings per share are calculated by dividing the net profit or loss that accrues to holders of ordinary shares by the weighted average number of outstanding ordinary shares during the financial year.

Diluted earnings per share

This represents the net income attributable to the holders of ordinary shares, adjusted for the interest expense (after tax) on the convertible subordinated loans, divided by the sum of the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would have been issued upon conversion into ordinary shares of all potential ordinary shares that might lead to dilution. If the earnings per share are negative, the diluted earnings per share will not increase.

The table below shows the net income and the number of shares taken as the basis for calculating the ordinary and diluted earnings per share:

Numbers x 1,000	2017	2016
Net income accruing to shareholders of ordinary shares for purposes of calculating the diluted earnings per share	**9,920**	**9,694**
Interest expense on convertible subordinated loans	170	0
Net income accruing to shareholders of ordinary shares for purposes, adjusted for dilution effect	**10,090**	**9,694**

Numbers x 1,000	2017	2016
Weighted average number of ordinary shares	11,474	11,419
Dilution effect:		
Share options	181	101
Performance shares	26	0
Conversion value of subordinated loans	588	0
Adjusted weighted average number of ordinary shares for purposes of calculating the diluted earnings per share	**12,269**	**11,520**

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 compiled.

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 following table:

	Domicile/country	Interest (%) 2017	2016
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 Holding B.V.	Echt, the Netherlands	100	100
Neways Micro Electronics B.V.	Echt, the Netherlands	100	100
Hymec Facilities B.V.	Echt, the Netherlands	100	100
Hymec Hybrid Circuits 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 Holding GmbH.	Riesa, Germany	100	100
Neways Elektronics Riesa GmbH. & Co. KG	Riesa, Germany	100	100
Neways Technologies GmbH. Erfurt	Erfurt, Germany	100	100
Neways Electronics Děčín s.r.o.	Děčín, Czech Republic	100	100
Neways Slovakia a.s.	Nová Dubnica, Slovakia	100	100
Neways Wuxi Electronics Co. Ltd.	Wuxi, China	100	100
Neways Electronics Singapore Pte. Ltd.	Singapore	0	100
Neways Electronics US Inc.	Wilmington, USA	100	–

The interest in Neways Electronics Singapore Pte. Ltd. was liquidated in 2017. The names BuS Holding GmbH and BuS Elektronik GmbH. & Co. KG in Riesa were changed to Neways Holding GmbH. and Neways Elektronics Riesa GmbH. & Co. KG, respectively, in 2017. The name BuS Děčín s.r.o. was changed to Neways Electronics Děčín s.r.o. in 2017. Neways Electronics US Inc. was incorporated in 2017.

The Group holds minority interests in the following entities:

	Domicile/country	Interest (%) 2017	2016
Qualifizierungszentrum Region Riesa GmbH.	Riesa, Germany	5.26	5.26

The following table shows the total amounts involved in transactions with related parties during the respective financial years (for information about the outstanding balances as at 31 December 2017 and 2016, please refer to items 9 and 17 of the Notes):

Amounts x € 1,000		Sales to	Purchases/ services from	Payable by	Payable to
Entity with meaningful influence over the Group:					
VDL Group	2017	15,866	3,502	3,811	911
VDL Group	2016	12,113	1,361	2,179	737
Key executives of the Group:	2017		160		
	2016		320		

Entity with meaningful influence over the Group
VDL Group: As at 31 December 2017, VDL Beleggingen B.V. owned 26.1% of the issued shares in Neways Electronics International N.V. (31 December 2016: 26.1%).

Conditions governing transactions with related parties
Transactions with related parties are conducted based on the same conditions as apply between independent parties. Amounts outstanding at year-end are not secured by arm’s length collateral, are not subject to interest and are settled in cash. Guarantees are neither provided nor demanded for the receivables from and payables to the related parties.
At year-end 2017, the Group had made no allowances for bad debts in connection with the receivables from related parties (2016: zero). This situation is assessed every financial year, based on an examination of the financial position of each related party and of the market on which it operates.

Liabilities in respect of related parties
In 2014 the Group issued convertible subordinated loans with a nominal value of € 5.0 million to shareholders holding interests of more than 3%. Repayments of the principal sums of these loans are subordinated in respect of all other existing and future debts to third parties (see also item 13 of the Notes).

Remuneration of the Board of Directors
A new remuneration policy applies with effect from 18 April 2017. The principal change is the introduction of a 'performance share plan', under which the members of the Board of Directors are annually awarded a conditional award of performance shares. The number of performance shares that is actually awarded at the end of a three-year performance period depends on a profit margin growth target set in advance for that period. More information on the 'performance share plan' and the number of performance shares awarded is provided in Note 16. The remuneration of the Board of Directors consists of a basic salary, an annual bonus and employee share options. The Supervisory Board determines the remuneration annually, within the framework permitted by the Group's remuneration policy. The basic salaries are not subject to any automatic pay rises under a collective bargaining agreement. Every year, the Supervisory Board determines a bonus arrangement for the reporting year. The bonus arrangement is contingent upon the realisation of a series of predetermined quantitative performance targets. The bonuses awarded are recognised during the reporting year, based on the realisation of the performance targets during the financial year, and are paid after the financial statements have been adopted. Payment takes place after adoption of the financial statements.

The value of the share options is based on the fair value of the share options granted during the financial year. For more information about the number of options granted for purchasing shares pursuant to the participation of the members of the Board of Directors in the share option scheme and the measurement of the fair value of the options, see Note 16.

The pensions of the members of the Board of Directors are insured with the pension fund of MN Services (Pensioenfonds Metaal en Techniek). These pensions, including pre-pension rights, are based on the career-average system. The members of the Board of Directors also have supplementary pensions based on the defined contribution system.

The ratio of the remuneration of the members of the Board of Directors compared with the average remuneration of the other employees during 2017 is 9:1. This ratio consists of the average remuneration of members of the Board of Directors in 2017 of € 403,000 as stated in the summary of the remuneration of the members of the Board of Directors in relation to the average remuneration of all employees of the operating companies in Western Europe (€ 44,000).
This average remuneration comprises wages and salaries plus bonuses and options of the employees in Western Europe, divided by the average number of employees in Western Europe.

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

2017	Basic salary	Pension charges	Social security charges	Bonuses	Share options	Other	Total
H.W.T. van der Vrande	303	38	10	120	15	32	518
P.H.J. de Koning	265	38	10	105	15	19	452
A.A.H. van Bragt	265	38	10	105	15	39	472
Total remuneration of key executives	**833**	**114**	**30**	**330**	**45**	**90**	**1,442**
Other key executives	**2,233**	**239**	**204**	**372**	**30**	**197**	**3,275**

2016	Basic salary	Pension charges	Social security charges	Bonuses	Share options	Other	Total
H.W.T. van der Vrande	279	37	10	78	13	31	448
P.H.J. de Koning	262	37	10	73	13	17	412
A.A.H. van Bragt	262	37	10	73	13	17	412
Total remuneration of key executives	**803**	**111**	**30**	**224**	**39**	**65**	**1,272**
Other key executives	**1,858**	**188**	**166**	**313**	**24**	**180**	**2,728**

During the financial year, the employee expenses included € 123,000 (2016: € 290,000) for termination benefits for other key executives.

Performance shares awarded in the financial year:

2017	Number	Vesting date
H.W.T. van der Vrande	7,314	18-04-20
P.H.J. de Koning	6,398	18-04-20
A.A.H. van Bragt	6,398	18-04-20
Total remuneration of key executives	**20,110**	
Other key executives	**17,131**	**18-04-20**

Remuneration of the Supervisory Board

The members of the Supervisory Board are paid a fixed fee, which is not linked to the Group's results. The remuneration of the members of the Supervisory Board was as follows:

Amounts x € 1,000	2017	2016
H. Scheepers (Chairman)	40	40
R. Penning de Vries	30	30
Peter van Bommel	30	30
Total	**100**	**100**

23. CONTINGENT ASSETS AND LIABILITIES

Rental agreements

The Group has concluded rental agreements for the majority of buildings that it uses. The average term of those rental arrangements is 10-15 years. The future minimum rental sums stemming from these non-terminable rental agreements as at 31 December can be summarised as follows:

Amounts x € 1,000	2017	2016
Within 12 months	3,830	3,446
Beyond 12 months, but within 5 years	14,429	13,113
Beyond 5 years	12,528	18,485
Total	**30,787**	**35,044**

In 2017 the total expense arising from these rental agreements was € 3,771,000 (2016: € 3,900,000).

Other operational lease agreements

The Group has concluded operational lease arrangements for several of its operating assets. The average term of those lease arrangements is 3-5 years; the contracts do not specify the possibility for renewal.

The future minimum lease obligations stemming from these non-terminable operational lease arrangements as at 31 December can be summarised as follows:

Amounts x € 1,000	2017	2016
Within 12 months	919	723
Beyond 12 months, but within 5 years	1,122	812
Total	**2,041**	**1,535**

In 2017, the total expense arising from these operational lease agreements was € 1,175,000 (2016: € 1,264,000).

Guarantees

The Group has issued bank guarantees to the amount of € 0.3 million (2016: € 1.4 million) in connection with credit provided by non-Dutch banks.

Claims

The Group is occasionally involved in legal proceedings as part of the normal course of its business. The outcome of those proceedings is not expected to have any significant impact on the Group's equity or results.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments are bank loans and overdrafts and trade payables, convertible subordinated loans and trade payables. The most important purpose of these financial instruments is to attract funding for the Group's operating activities. The Group possesses a range of financial assets, the most important financial instruments being trade receivables and cash and cash equivalents, that stem directly from the operating activities. The Group also enters into derivatives transactions on occasion.

The principal risks arising in connection with the Group's financial instruments are the market risk (interest rate risk on cash flows and currency risk), the liquidity risk and the credit risk. Management assesses and approves the policy for managing these risks (see the overview below).

Market risk

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

The calculations for the sensitivity analyses are based on the following assumptions:

- The sensitivity of equity relates to the impact of the assumed changes in the US dollar exchange rate on the associates in China;
- The sensitivity of the income statement consists of the impact of the assumed changes in the relevant market risks, based on the financial assets and financial liabilities as at 31 December 2017 and 2016.

Interest rate risk

The risk that the Group incurs as a result of fluctuations in market interest rates primarily pertains to the Group's bank overdrafts and its variable-interest long-term liabilities. The Group's policy is to manage its interest expense through a combination of fixed-rate and variable-rate borrowings. For a summary of the interest rates, please refer to item 13 of the Notes.

Interest risk table

The table below shows the sensitivity of the Group's profit after tax (through the effect of bank overdrafts and variable-interest borrowings) to reasonable changes in the interest rates, assuming that all other variables remain constant. This has no material impact on the Group's equity.

	Rise/fall in basis points	Impact on the profit before tax (x € 1,000)
2017	+15	–101
	–10	68
2016	+15	–77
	–10	52

Currency risk

The Group is exposed to currency risks on transactions, which risks pertain to purchases and sales effected by business segments in other currencies than the functional currency.
The Group's policy focuses on maintaining the purchasing volumes in other currencies than the functional currency at approximately the same level as the volume of revenue in that currency. This is an ongoing process throughout the year, and serves to minimise the risk of a mismatch between incoming and outgoing cash flows in foreign currencies.

Exchange rate sensitivity

The table below shows the sensitivity of the Group's results after tax (through movements in the fair value of the monetary assets and liabilities) and equity to reasonable changes in the exchange rate for the US dollar, assuming that all other variables remain constant. Changes in the exchange rates for all other currencies have no material impact on the Group.

	Change in the USD exchange rate	Impact on results before tax (x € 1,000)	Impact on equity (x € 1,000
2017	+10%	683	–149
	–10%	–835	182
2016	+10%	785	–190
	–10%	–863	209

The movement in the impact after tax stems from the movement in the fair value of monetary assets and liabilities which are denominated in US dollars whereas the entity's functional currency is the euro. The movement in equity stems from changes to the associates in China, which are recognised in US dollars.

Liquidity risk

The Group monitors its risk of having insufficient funds by frequently assessing its bank balances and the projected cash flows from the Group's operating activities.

The table below shows the maturity dates of the Group's financial obligations as at 31 December 2017, based on contractual, nominal payments.

As at 31 December 2017

Amounts x € 1,000	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest on loans and bank overdrafts	32,944	297	282	5,120	0	38,643
Trade and other payables	1,713	56,810	7,511	58	0	66,092
Total	**34,657**	**57,107**	**7,793**	**5,178**	**0**	**104,735**

As at 31 December 2016

Amounts x € 1,000	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest on loans and bank overdrafts	19,890	346	5,919	5,746	0	31,901
Trade and other payables	0	55,163	8,047	54	0	63,264
Total	**19,890**	**55,509**	**13,966**	**5,800**	**0**	**95,165**

For a list of interest-bearing borrowings, please refer to item 13 of the Notes.

Credit risk

The Group's policy is to subject all customers that wish to negotiate based on credit terms to credit verification procedures. All outstanding amounts are also continually monitored, to ensure that the Group does not incur any great risks from bad and doubtful debts. The Group also has credit insurance for a large portion of the debt portfolio.

The maximum credit risk incurred is the carrying amount shown in item 9 of the Notes. More than 60% of the balance of outstanding trade receivables is concentrated among fifteen of the Group's customers. Since, however, guarantees have been provided for the majority of those receivables, management believes that no extraordinary risks are present. In addition, no payment problems have occurred with those customers in the recent past.

For the Group's other financial assets, consisting of cash and cash equivalents, the maximum credit risk incurred is the carrying amount of the cash and cash equivalents in question.

Capital management

The primary purpose of the Group's capital management is to maintain a favourable credit rating and a healthy solvency in order to support the Group's operations and maximise shareholder value.

The Group manages its capital structure and alters it in response to changes in the economic climate. To maintain or adjust its capital structure, the Group can adjust its dividend payments to shareholders, repay capital to shareholders or issue new shares. The objectives, policies and processes did not undergo any changes during the 2017 and 2016 financial years.

The Group monitors its capital using its solvency ratio, which represents 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 suppliers of bank overdrafts have laid down requirements with regard to the Group's capital management. Those covenants are set out in the credit agreements and are monitored periodically. An amended loan agreement was agreed with the credit suppliers in 2016, with amended covenants. These covenants comprise, among other requirements, a minimum LTM EBITDA (earnings before interest, tax, depreciation and amortisation for the last 12 months) of € 10 million and a minimum adjusted guaranteed capital of € 50 million as at 31 December 2016 and € 55 million as at 31 December 2017 and subsequent years. The suppliers define the guaranteed capital as the issued and paid-in capital, plus reserves and borrowings subordinated in relation to banks (and other parties), and less goodwill, other intangible assets, deferred tax assets, associates, receivables from shareholders and/or management and treasury shares. The term of the loan agreement was extended by one year in 2017 to 31 October 2019.

The loan agreement comprises an available credit facility (overdraft and committed) of € 52.5 million and bank loans. The interest payable on the credit facility is 1-month Euribor + 1.4% to 2.3%, depending on the senior net debt/ EBITDA ratio. The interest payable on the bank loans is 1-month Euribor + 1.5% to 2.4%, depending on the senior net debt/ EBITDA ratio.

The adjusted guaranteed capital as at 31 December 2017 was € 73.8 million. The Group applies strict working capital management in order to improve solvency. In addition, if and as long as the adjusted guaranteed capital falls short of the conditions for the minimum adjusted guaranteed capital, no profit may be distributed in any form whatsoever. In addition, the financial institutions consider it necessary for the LTM EBITDA to be at least € 10 million. As at 31 December 2017, LTM EBITDA was € 23.4 million. Failure to satisfy the minimum adjusted guaranteed capital required will cause the loans provided to fall due immediately. As at 31 December 2017, the Group complies with all covenants of the loan agreement set by the financial institutions. Combined with realisation of a profit in 2018, the Group expects to be compliant throughout 2018 with the conditions imposed by the financial institutions for the adjusted guaranteed capital.

Amounts x € 1,000 as at 31 December	2017	2016
Equity attributable to the parent company	85,048	78,939
Convertible subordinated loans	4,937	4,924
Less: Software	–5,930	–6,698
Goodwill	–2,754	–2,754
Customer relationships	–3,174	–4,020
Deferred tax assets	–4,352	–4,293
Adjusted guaranteed capital	**73,775**	**66,098**
Balance sheet total	204,400	188,088
Less: Software	–5,930	–6,698
Goodwill	–2,754	–2,754
Customer relationships	–3,174	–4,020
Deferred tax assets	–4,352	–4,293
Adjusted balance sheet total	**188,190**	**170,323**
Solvency	39.2%	38.8%

Amounts x € 1,000	2017	2016
Operating results	14,301	11,780
Depreciation and amortisation	9,059	8,216
EBITDA	**23,360**	**19,996**

25. EVENTS AFTER THE BALANCE SHEET DATE

No events occurred after the balance sheet date that need to be reported.

Company statement of financial position (before profit appropriation)

Amounts x € 1,000 as at 31 December	Notes	2017	2016
Fixed assets			
Intangible assets	2	**734**	**734**
Financial assets			
Investments in Group companies	3	52,359	62,456
Receivables from Group companies	3	38,993	39,054
		91,352	**101,510**
Current assets			
Receivables			
Receivables from Group companies		3,062	10,698
Other receivables		6	25
		3,068	**10,723**
Cash and cash equivalents		**0**	**0**
Total assets		**95,154**	**112,967**

Amounts x € 1,000 as at 31 December	Notes	2017	2016
Equity	4		
Issued and paid-in capital		5,741	5,730
Share premium		40,312	39,989
Retained earnings		24,259	17,938
Profit for the financial year		9,920	9,694
Reserve for currency translation differences		610	896
Other statutory reserves		4,206	4,692
		85,048	**78,939**
Long-term liabilities			
Interest-bearing borrowings	5	4,937	4,924
Deferred tax liabilities		430	529
		5,367	**5,453**
Current liabilities			
Bank overdrafts	6	3,551	23,080
Interest-bearing borrowings	5	0	4,974
Corporate income tax		1,085	321
Other payables		103	200
		4,739	**28,575**
Total equity and liabilities		**95,154**	**112,967**

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

Company income statement

Amounts x € 1,000	Notes	2017	2016
Gross profit		0	0
Employee expenses	7	–290	–194
Other expenses		–112	–158
Operating profit		**–402**	**–352**
Finance income		840	976
Finance costs		–375	–396
Net finance costs		**465**	**580**
Share in results from participating interests after tax	8	9,989	9,190
Profit before tax		**10,052**	**9,418**
Income tax		–132	276
Profit for the period		**9,920**	**9,694**

Notes to the company financial statements

1. GENERAL

The company financial statements of Neways Electronics International N.V. have been prepared in accordance with Part 9, Book 2 of the Netherlands Civil Code.

The Company makes use of the option offered in Section 362(8), Book 2 of the Netherlands Civil Code for establishing the accounting principles for its separate financial statements. This means that the accounting principles for the separate financial statements are identical to the principles applied in the consolidated EU-IFRS financial statements. The consolidated EU-IFRS financial statements have been prepared in accordance with the standards established by the International Accounting Standards Board and as adopted by the European Union ('EU-IFRS'). See item 2 of the Notes to the consolidated financial statements for a description of these principles.

Subsidiaries on whose business and financial policies the Company can exercise meaningful influence are measured according to the equity method, based on net asset value. That net asset value is calculated according to the Company's accounting principles. Income from transactions involving a transfer of assets and liabilities between the Company and its subsidiaries or between separate subsidiaries is eliminated insofar as it can be regarded as not having been realised.

Subsidiaries whose net asset value is negative are stated at zero. However, where the Company is the guarantor for some or all of a subsidiary's debts, or else is effectively obliged (relative to the Company's participation) to enable the subsidiary to pay its debts, a provision is formed to the amount of the Company's projected payments for the subsidiary. That provision is formed primarily from the long-term receivables from the subsidiary and is treated as an addition to the net investment.

The remainder is presented in the provisions. Subsidiaries on which the Company has no meaningful influence are stated at the lower of acquisition price or recoverable amount.

Where the Company has positive disposal plans, the subsidiary is stated at the projected sale value if lower. Other assets and liabilities are measured and results are determined in accordance with the accounting principles as shown in the notes to the consolidated financial statements. As a result, Neways Electronics International N.V.'s equity and net results are identical to those as presented in the consolidated financial statements.

2. INTANGIBLE ASSETS

This item concerns the goodwill arising from the acquisition of the shares in Neways Slovakia a.s.

3. FINANCIAL ASSETS

Investments in Group companies

The movements in investments in Group companies can be summarised as follows:

Amounts x € 1,000	2017	2016
Balance as at 1 January	**62,456**	**53,702**
Movements		
Income from subsidiaries after tax	9,989	9,190
Other comprehensive income from subsidiaries after tax	43	–359
Dividend received from participating interests	–20,000	0
Exchange gains and losses	–129	–77
	–10,097	8,754
Balance as at 31 December	**52,359**	**62,456**

See item 22 of the Notes to the consolidated financial statements for the list of the Company's capital interests.

Receivables from Group companies

The movements in receivables from Group companies can be summarised as follows:

Amounts x € 1,000	2017	2016
Balance as at 1 January	**39,054**	**38,906**
Movements		
Acquisitions	100	96
Exchange gains and losses	–161	52
	–61	148
Balance as at 31 December	**38,993**	**39,054**

Amounts x € 1,000	Interest rate	Outstanding amount 2017	Outstanding amount 2016
Loan to Neways Deutschland GmbH.	2%	36,467	36,467
Loan to Neways Wuxi Electronics Co. Ltd. Ltd.	5%	2,526	2,587
Totaal		**38,993**	**39,054**

These are both long-term loans with no repayment required.

4. EQUITY

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

5. INTEREST-BEARING BORROWINGS

Amounts x € 1,000	Effective interest rate	Maturity date	Outstanding amount 2017	Outstanding amount 2016
Current				
Bank loans	Euribor + (1.5% – 2.4%)		0	4,974
Long-term				
Convertible subordinated loans	4.6%	30 Sep. 2019	4,937	4,924

For more information about these bank loans and the convertible subordinated loans that which were contracted during the 2014 financial year to finance the acquisition of the BuS Group, see item 13 of the Notes to the consolidated financial statements.

6. BANK OVERDRAFTS

The credit facilities available as at 31 December 2017 (overdraft and committed facilities) total € 52.5 million (interest rate: Euribor + 1.4%-2.3%, depending on the net debt/EBITDA ratio). As at the balance sheet date, € 33.2 million of the credit facility was in use for overdrafts and bank guarantees (31 December 2016: € 20.6 million). Redemption of the debts to the financial institutions is secured by means of a pledge established on business equipment, inventories, receivables and entitlements under the credit insurance policy. The total value of the pledge as at 31 December 2017 was approximately € 160 million. All Dutch and German Group companies have issued statements of joint and several liability to the financial institutions on the Company's behalf. The financial institutions further consider it necessary for the guaranteed capital (adjusted for deferred tax assets and intangible assets) to equal at least € 55 million as at 31 December 2017 and for the EBITDA to be no lower than € 10 million. Further details about the bank covenants with financial institutions are provided in Note 24.

7. EMPLOYEE EXPENSES

The company has no employees. Employee expenses comprise the remuneration of the Supervisory Board and the costs of share-based payment arrangements. For more information, see the consolidated financial statements, Notes 16 and 22.

8. SHARE IN RESULTS FROM PARTICIPATING INTERESTS AFTER TAX

The share in the result of enterprises in which a participating interest is held comprises the company's share in the results of those entities.

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

For information about the remuneration of the Board of Directors and the Supervisory Board, please refer to item 22 of the Notes to the consolidated financial statements.

10. AUDITOR'S FEES

The following fees for KPMG Accountants N.V. were charged to the company.

Amounts x € 1,000	KPMG Accountants N.V. 2017	Other KPMG Network 2017	Total KPMG 2017
Financial statement audit	251	0	251
Other audit engagements	0	0	0
Tax advisory services	0	0	0
Other non-audit services	0	0	0

Amounts x € 1,000	KPMG Accountants N.V. 2016	Other KPMG Network 2016	Total KPMG 2016
Financial statement audit	189	0	189
Other audit engagements	0	0	0
Tax advisory services	0	0	0
Other non-audit services	0	0	0

The fees stated in the table for the financial statements audit relate to the fees that are attributable to the financial year in which those services took place.

11. FINANCIAL INSTRUMENTS

Interest rate risk

The risk that the Company incurs as a result of fluctuations in market interest rates primarily pertains to the Company's bank overdrafts and its variable-interest long-term liabilities. The Company's policy is to manage its interest expense through a combination of variable-rate and fixed-rate borrowings. For a summary of the interest rates, please refer to items 5 and 6 of the Notes.

For all other risks, please refer to item 24 of the Notes.

12 LIABILITIES NOT INCLUDED ON THE FACE OF THE BALANCE SHEET

The Company is included with the Dutch Group companies in a fiscal unity for corporate income tax purposes and a VAT group. The Company shares in the joint and several liability for all debts arising from those taxes.

The Company has declared itself liable, pursuant to Section 403, Book 2 of the Netherlands Civil Code, for debts arising from the juristic acts of the Dutch Group companies. The Company has also declared itself liable for debts arising from the juristic acts of the German subsidiary Neways Deutschland GmbH.

The Group has issued bank guarantees to the amount of € 0.3 million (2016: € 1.4 million) in connection with credit provided by non-Dutch banks.

Son, 27 February 2018

Supervisory Board	**Board of Directors**
Henk Scheepers	Huub van der Vrande
Peter van Bommel	Paul de Koning
René Penning de Vries	Adrie van Bragt

Independent auditor's report

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

REPORT ON THE FINANCIAL STATEMENTS 2017 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 2017 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 2017 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 2017 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 2017;
2 the following consolidated statements for 2017: the statements of profit or loss and comprehensive income, changes in equity and cash flows; 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 2017;
2 the company income statement for 2017; and
3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

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

We are independent of Neways Electronics International N.V. in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), 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 500,000
- 5% of profit before tax

GROUP AUDIT
- 82% of total assets
- 86% of revenue

KEY AUDIT MATTERS
- General IT Controls
- Revenue recognition
- Valuation of inventories

UNQUALIFIED OPINION

Materiality
Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 500.000 (2016: EUR 500.000). The materiality is determined with reference to profit before tax (5%). We consider profit before tax as the most appropriate benchmark because as the key stakeholders are primarily focussed 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 Neways Electronics International N.V.

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 proceduers on trade accounts receivable, inventories and revenue at Neways Technologies B.V.. We have made use of the work of KPMG Germany for the audit of Neways Deutschland GmbH. We sent detailed instructions to KPMG Germany and received reporting back from them. Given the significance of Neways Deutschland GmbH in Germany we performed a review of the audit files of KPMG Germany and attended the meeting with local management in which the audit findings were discussed.

Considering the significance and/or the risk profile of the remaining components, we have performed analytical procedures 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 significant 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 consolidated financial statements.

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

Audit of the complete reporting package		Audit of specific items
80%	**Total assets**	2%
84%	**Revenue**	2%

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.

The key audit matter as reported last year regarding estimates with respect to the valuation of deferred tax assets is no longer included since the uncertainties with respect to the assessment of future taxable income have decreased compared to last year.

We added valuation of inventories at Neways Advanced Applications B.V. and Neways Electronics Riesa GmbH & Co. KG as a key audit matter, given the increased significance of these inventories to the financial statements.

The operation of General IT Controls

Description

The use of information technology (IT) impacts the internal control environment. From the perspective of the external auditor, internal controls for automated systems operate effectively, if they warrant the integrity of the information and the security of the data processed in such systems and if they contain effective general IT controls and internal controls at application level (application controls).

When general IT controls operate effectively we rely in our audit, to the extent possible, on application controls (for example 3-way match of purchases). Due to the significant importance of effective general IT controls for our audit of the financial statements we consider this topic as a key audit matter to our audit.

Our response

When testing the operating effectiveness of the internal controls for the automated systems of the BaaN IV system and Infor LN, we used, among others, the knowledge and experience of KPMG IT specialists. This included testing of internal controls for access to IT infrastructure and data, program changes and system developments and the security of IT infrastructure to establish whether they meet the relevant requirements.

Our observation

We found that the internal controls for the BaaN IV system and Infor LN were not operating effectively throughout the entire year. As a result, we are unable to rely on the application controls for purposes of our audit and we had to perform more substantive audit procedures (including detailed sample-based audit procedures for expenses and revenue).

We also had to perform additional procedures on the information produced by the company (such as verifying individual items against invoices in the list of the trade receivables aging analysis.

Revenue recognition

Description

Since performance of listed companies is measured based on increase of revenue or profit compared to last year, management might be exposed to incentives or pressure to prepare fraudulent financial statements by overstating revenue. Also considering the ineffective general IT controls, as described in the previous key audit matter, we assessed the risk of overstatement of revenue at year end as significant. As a result, the audit of the recognition of revenue in accordance with the terms and conditions of the sales contracts in the proper period at year-end was significant to our audit.

Our response

For the audit of correct cut-off of revenue at year-end, we carried out audit procedures relating to deliveries shortly before 31 December 2017 with delivery documents and credit notes sent after year-end. We also reviewed the most important contracts, in terms of volume, to determine whether any extraordinary terms apply that might affect the timing of revenue recognition.

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 valuation of inventories

Description

Significant inventories exist at Neways Advanced Applications B.V. and Neways Electronics Riesa GmbH (component of Neways Deutschland 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 reperformed the calculation of the provision for obsolete inventories prepared by management. We assessed the inputs used by management such as historical usage and future use and verified accuracy with sales orders.
We have performed a retrospective analysis to evaluate the historical accuracy of management's estimates.

Our observation

Overall, we assess the assumptions applied by management with respect to the provision for obsolete inventories to be reasonable.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

- CEO's Foreword;
- About Neways;
- Report of the Board of Directors, including Governance and compliance;
- Report of the Supervisory Board;
- Other information.

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

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

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

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially 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 Report of the Board of Directors in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to 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 Neways Electronics International N.V.'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 Neways Electronics International N.V. 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 Neways Electronics International N.V.'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, 27 February 2018

KPMG Accountants N.V.

M.J.A. Verhoeven RA

Trade Register

The two-tier company is listed in the Trade Register of the East Brabant Chamber of Commerce in Eindhoven, under number 17036989.

Provisions in the Articles of Association governing the appropriation of profit

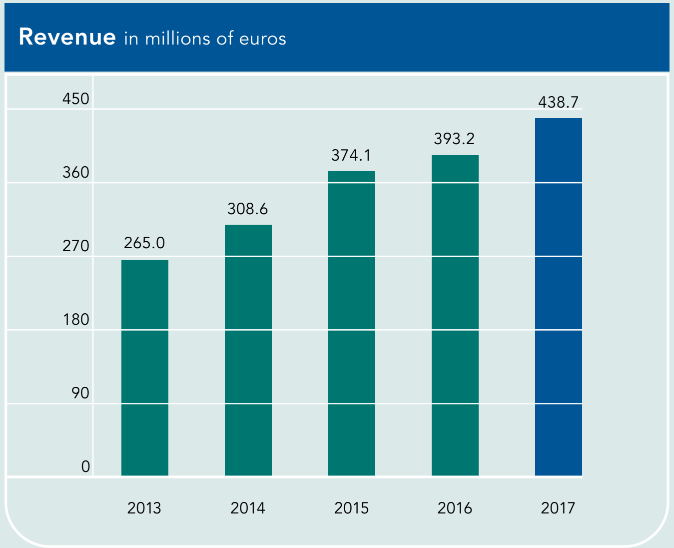
Profit appropriation according to the Articles of Association Article 31 of the Company's Articles of Association states that distributions of profits are possible to the extent that the Company's equity exceeds the amount of called-up and paid-in capital, plus the reserves required by law. The Board of Directors may, subject to the Supervisory Board's prior approval, add some or all of the profits to the reserves. The profits not added to the reserves are at the disposal of the General Meeting of Shareholders. The General Meeting of Shareholders may decide, based on a proposal presented by the Board of Directors and approved by the Supervisory Board, to distribute profits from any reserves that are available for distribution. The General Meeting of Shareholders may decide, based on a proposal presented by the Board of Directors and approved by the Supervisory Board, to distribute profits in the form of shares in the Company, without prejudice to the provisions laid down in the Company's Articles of Association governing issuances of shares.

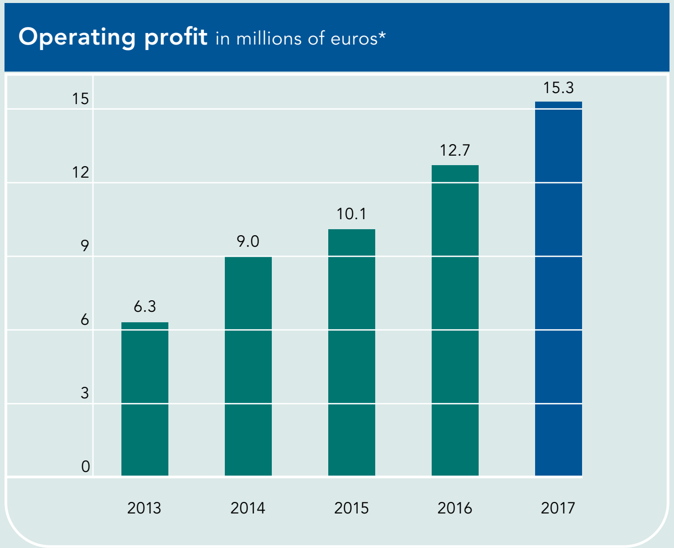
Proposed profit appropriation

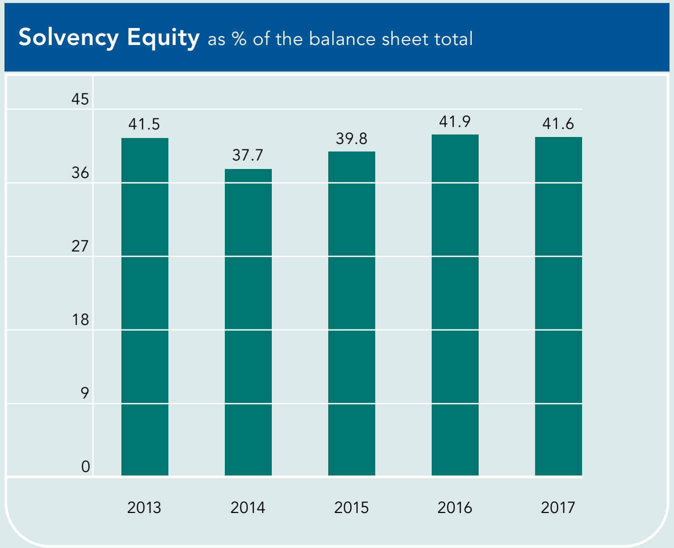
The income statement shows that the net profit for 2017 was € 9,920,000.

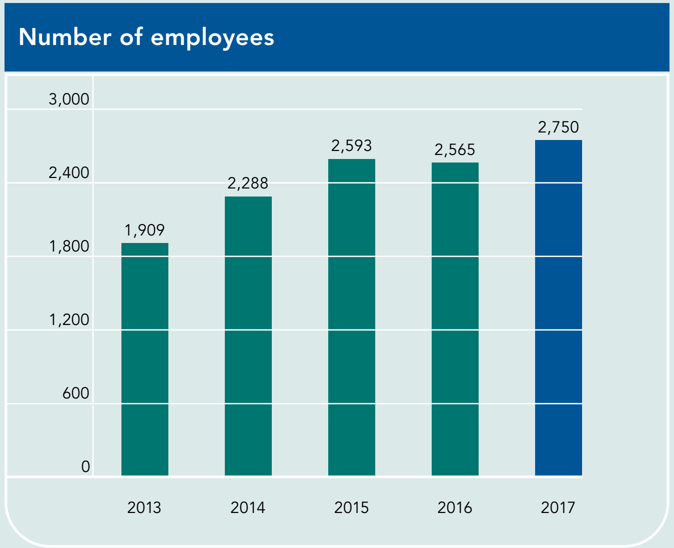
The Board of Directors proposes that the net profit be added to the retained earnings. The Board of Directors also proposes that a dividend of € 0.35 per share be distributed for the 2017 financial year. The dividend will be paid in cash.

Key figures and five-year summary 2013 – 2017









* Net of exceptional income and expense.

Amounts in EUR million, unless stated otherwise	2017	2016	2015	2014	2013
Revenue	438.7	393.2	374.1	308.6	265.0
Gross margin	171.3	153.8	147.5	124.9	105.7
Operating profit net of exceptional income and expenses****	15.3	12.7	10.1	9.0	6.3
Operating profit	14.3	11.8	5.9	6.6	2.6
Net profit net of exceptional income and expenses****	10.0	9.2	6.2	5.3	4.7
Net profit	9.9	9.7	3.2	7.0	1.9
Net cash flow*	–3.4	2.6	2.9	–32.5	28.4
Equity	85.0	78.9	70.6	66.0	50.1
Guaranteed capital**	89.9	83.9	75.5	70.9	50.1
Balance sheet total	204.4	188.1	177.1	175.2	120.6
Capitalised goodwill	2.8	2.8	2.8	2.8	2.8
Interest coverage ratio***	10.2	6.8	4.9	6.9	11.2
Net Debt/EBITDA ratio***	1.6	1.5	1.9	1.7	0.1
Solvency					
Equity as % of the balance sheet total	41.6	41.9	39.8	37.7	41.5
Guaranteed capital as % of the balance sheet total	44.0	44.6	42.6	40.5	41.5
Profitability ratios* **					
Return on equity	11.8	11.7	8.8	8.1	9.4
Operating profit as % of revenue	3.5	3.2	2.7	2.9	2.4
Net profit as % of revenue	2.3	2.3	1.7	1.7	1.8
Operating profit as % of invested capital	16.5	14.7	11.7	9.7	11.5

Amounts in EUR million, unless stated otherwise	2017	2016	2015	2014	2013
Information per employee					
Workforce (in FTEs)	2,750	2,565	2,593	2,288	1,909
Revenue per employee (x 1,000)	160	153	144	135	139
Gross margin per employee (x 1,000)	62	60	57	55	55
Information per ordinary share, in euros (based on number of shares as at year-end)					
Net profit	0.86	0.85	0.28	0.63	0.19
Net profit***	0.87	0.80	0.55	0.49	0.47
Equity	7.40	6.89	6.19	6.01	5.03
Net cash flow	–0.30	0.23	0.25	–2.96	2.86
Dividend	0.35	0.34	0.11	0.25	0.06
Dividend as a % of net profit (2012: excl. writedown of the deferred tax asset in Germany)	40.0	40.0	40.0	40.0	30.0
Number of shares at year-end x 1,000	11,481	11,459	11,401	10,986	9,946
Highest price	14.21	10.21	10.45	9.80	6.13
Lowest price	9.20	6.65	6.78	6.05	3.55
Balance as at 31 December	13.65	9.28	7.50	7.30	6.13

* Net cash flow is defined as: cash flow from operating activities, plus cash flow from investing activities.

** Convertible subordinated loans

*** The calculations of ratios do not include exceptional income and expenses.

**** See page 21.

Address details

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Neways Electronics International N.V. is registered on the NYSE Euronext Amsterdam

COLOPHON

DESIGN AND PRODUCTION
C&F Report
Amsterdam

PHOTOGRAPHY
C&F Report (Christiaan Krop)

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