ANNUAL REPORT 2018

NEWAYS®

PARTNER IN DRIVING EXCELLENCE

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

We made good progress with the implementation of our strategy in 2018. This resulted in better performance by our Group across the board. Revenue was up 15.5%, margin was up 14.0% and bottom-line profit rose by 45.5%. As CEO, I am proud of the success we have achieved together. I highly appreciate our people for their commitment and contribution to growth and improving our performance they have once again given this year.

The progress we are now showing on many fronts is due to our improved positioning and the internal improvement programme we initiated some years ago. For us, everything starts with the customer. Innovation is happening so fast these days that the many large companies in the manufacturing industry are looking for partnerships in order to keep up with developments. They are continuously looking for efficiency gains in order to operate more effectively and competitively. Speed and flexibility are becoming increasingly important for our customers. OEMs will therefore increasingly look for partners in the chain like Neways that have the right know-how and expertise.
This means that the thinking will be based more on product lifecycle management and total cost of ownership.

One issue that customers are concerned with is how they can get more control of the chain. The increasing complexity of electronic systems in combination with the current scarcity of certain components is making this demand more urgent. For Neways, this means we are looking to fulfil the role of chain coordinator even more. We are thus working hard on more accurately understanding the supply chain and we are forging partnerships with the key suppliers. With our expertise in this field, we can add value for our customers right from the earliest stage of each new product development process. This concerns the latest technological and other developments in the chain, the choices with respect to the specifications of a new component or system, the sourcing of materials and parts and the potential alternatives. We can do this for every constructed component and every electronic system that we then batch produce for our customers. We can thus help to optimise the chain and make better use of the efficiency gains and savings that this will provide.

We intend to focus more consciously on major customers that share our philosophy of product lifecycle management and total cost of ownership. These companies are particularly suitable prospects for us to work towards long term partnerships. We can then further shape these partnerships along the lines of our three strategic priorities: technology leadership, customer intimacy and operational excellence.

Our performance in 2018 showed that with our philosophy and our conscious choice for five growth sectors we have achieved a clear focus with which we can grow further in the EMS market in the coming years. We took another step forwards in 2018, in terms of both the quality of the organisation and our financial performance. I am pleased to see how cooperation within the Group has improved. But in all honesty, not everything is going well. We faced the inevitable capacity issues on some occasions last year due to a strong rise in demand and the scarcity of components and we were not always able to supply our customers in full. This not only pressured our revenue growth and margin improvement, it also negatively affected our available working capital.

This does not change the fact that Neways had a good year in 2018 and that we focused on the right things. We will continue this course in 2019. We still see much potential for improvement within all three strategic pillars. We must be critical and continue to learn from what does not go well, but also from what does go well. This will make our organisation stronger.
And that will enable us to grow with our customers in the coming year, face the challenges together and at the same time offer our shareholders an attractive return.

Company profile

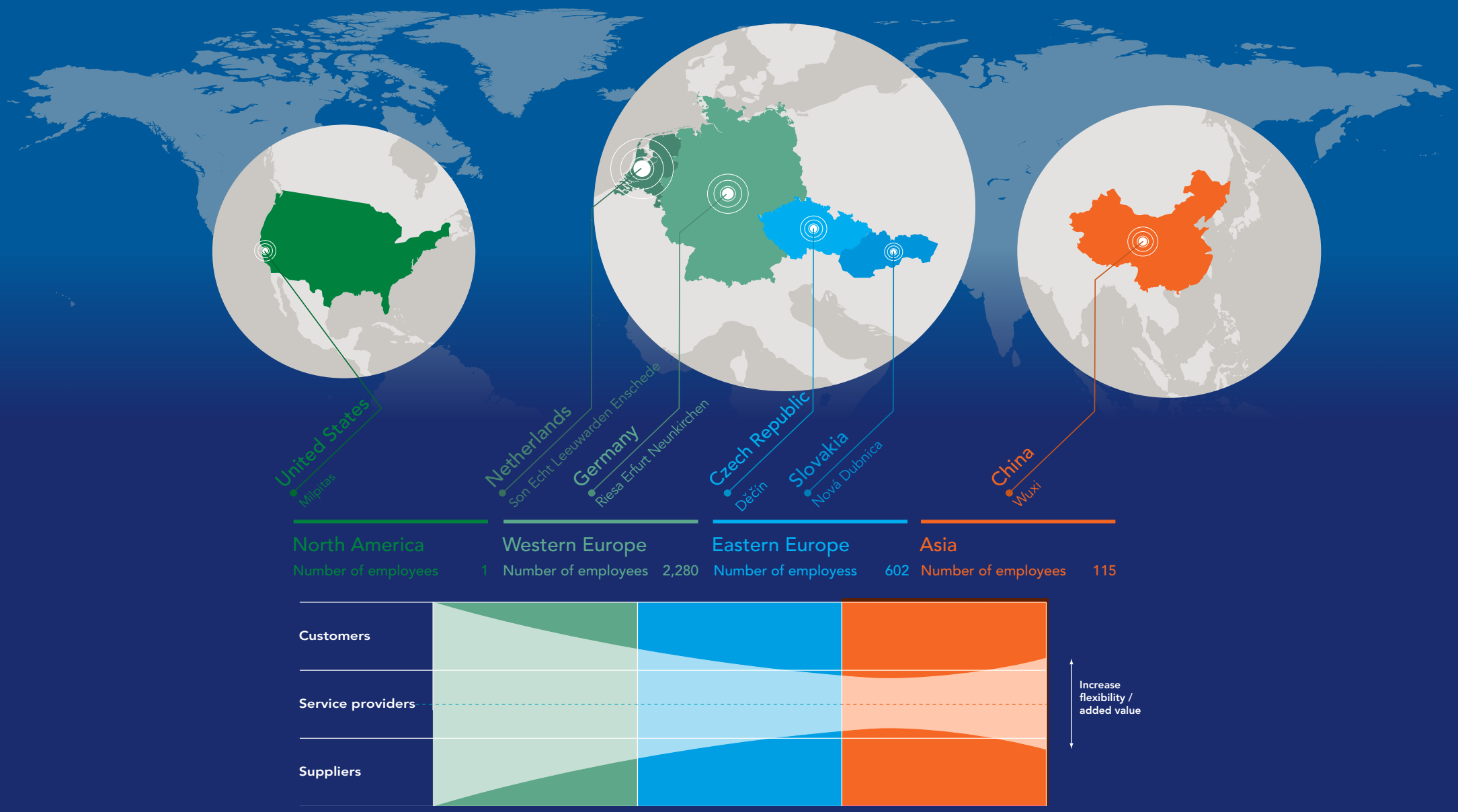
Neways is a top 10 player in the European market for Electronic Manufacturing Services (EMS). The company operates as a development and production partner for Original Equipment Manufacturers (OEMs) and their first-tier suppliers. The principal market sectors for our activities are semiconductor, automotive, industrial, medical and defence.
We do this with around 3,000 employees with 14 operating companies spread across Western Europe, Eastern Europe, Asia and the United States.

Neways' head office is located in Brainport, a top technology cluster in and around Eindhoven, which is also home to globally leading manufacturing businesses such as ASML, NXP and Philips. Local authorities and technical universities and universities of applied sciences work closely with each other to maintain and extend the international competitive position of the region in high-tech and innovation.

Our mission

Neways aims to be the preferred development and production partner for its customers and contribute to optimising the total cost of ownership of an end product by providing customised solutions for the full lifecycle of electronic components, application and box-build operating systems.

International footprint and business model



Business model

Our operations cover the full lifecycle of professional and advanced electronics in the business to business segment. With our technological know-how and flexibility, we help customers innovate and produce more intelligently and more efficiently.
We are therefore involved as a partner in the development of a product at an early stage, we carry out prototyping and testing prior to batch production and we also provide maintenance, upgrades and further development.

Our operating companies are situated at strategically chosen locations, close to our customers. This gives us an optimal position to facilitate close cooperation.
With intensive harmonisation between our operating companies, we can not only serve large manufacturers better, we can also realise scale, synergy and efficiency benefits.

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, by far the largest market for EMS in Europe.

EASTERN EUROPE

In Eastern Europe, 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 has made substantial investments in the past years in the capacity and modernisation of its production facilities in the Czech Republic and Slovakia. Neways is thereby anticipating the quality standards that are required and has laid a foundation for future growth of activities and strengthening of its market position in Eastern Europe.

ASIA

Neways is active in Asia with one operating company engaged in assembling PCBs and building devices and systems. 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 OEMs and their first-tier suppliers with facilities in the Chinese region.

Components and systems are produced cost-efficiently in China.
The production facilities are state-of-the-art and equipped with the latest Surface-Mounted Devices (SMD), production lines and testing equipment.

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 operating company plays a central role in expanding component purchasing for the Group as a whole in the local Chinese market.

UNITED STATES

In the United States, Neways has one operating company located in Silicon Valley (California). Operations commenced in 2018 and are currently still focused on supporting existing customers, mostly in the medical and semiconductor sectors. The accent is on engineering activities that add a high degree of value. The aim is to expand our presence and customer base in the US.

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	●					
Neways Electronics US, INC. Milpitas		●				

Development

"Customers have been expecting us to do more than simply produce electronics for many years. We get involved with them at the start of the development process and advise them if something can be improved or has to be done differently.

Quality control is absolutely essential. Achieving zero defects starts with using the right components. There are 135,000 different components in our database alone. We select the best solutions for our customers. We work with preferred suppliers and preferred components for example. The design also has to be suitable for the production. The design and production departments work much more closely together than they used to.

If a product is being developed, we advise the customer regarding the best component, taking account of quality and availability, not only cost. Careful selection prevents production errors or, even worse, breakdowns if a device is already in use.

In case of an existing product, the design can no longer be changed and we look for the best alternative in consultation with the customer. This is a complicated job since many conditions have to be met, but it also demonstrates how our expertise and cooperation adds value."

PARTNER IN DRIVING EXCELLENCE

DEVELOPMENT | TRANSFER TO PRODUCTION | PRODUCTION | SALES | AFTER SALES | CONTRACT MANAGEMENT

GERARD VERSCHUREN
SENIOR PROJECTMANAGER
NEWAYS TECHNOLOGIES

Key figures and performance indicators

Revenue (€ mln.)

2018
506.8

compared with 2017
+15.5%

Adjusted operating profit*

(€ mln.)

2018
22.0

compared with 2017
+43.8%

Adjusted net profit*

(€ mln.)

2018
15.1

compared with 2017
+51.0%

Net cash flow**

(€ mln.)

2018
–4.5

compared with 2017
–32.4%

Equity

(€ mln.)

2018
101.6

compared with 2017
+19.5%

Interest coverage ratio

2018
11.2

compared with 2017
+9.8%

* Excluding exceptional income and expense (see page 22).

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

Key figures and performance indicators

Net Debt/ EBITDA ratio

2018
1.4

compared with 2017
–12.5%

Equity solvency as % of the balance sheet total

2018
41.5

compared with 2017
–0.3%

Adjusted net profit per share*

2018
1.26

compared with 2017
+44.8%

Total number of employees on a full-time basis

2018
2,943

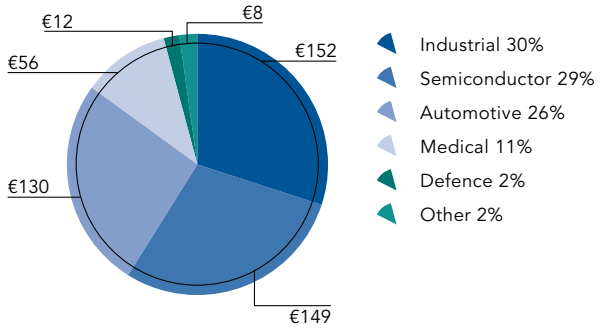
compared with 2017
+7.0%

* Excluding exceptional income and expense (see page 22).

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

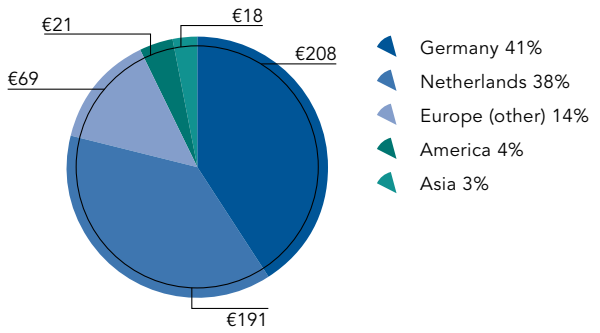
Distribution of revenue by market sector

in millions of euros



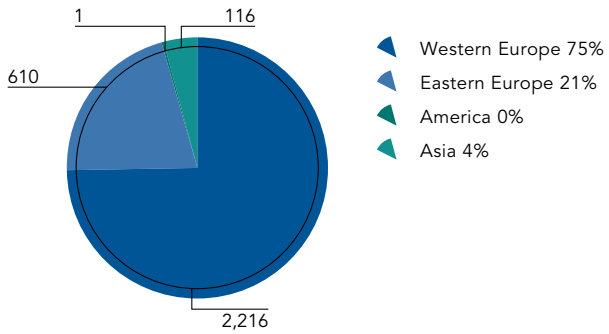
Geographical distribution of revenue

in millions of euros



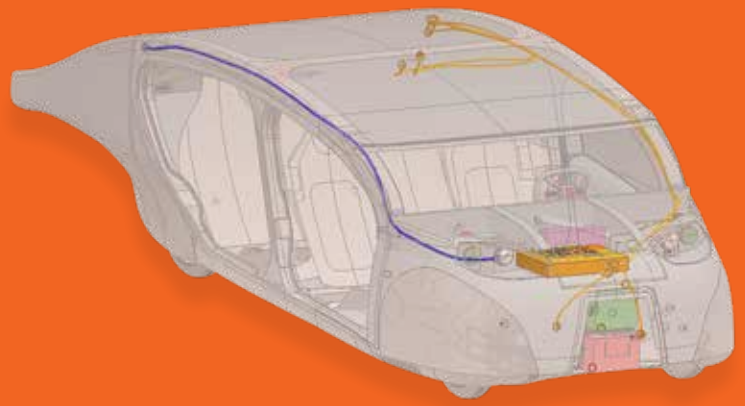
Geographical spread of employees

on a full-time basis



Stella Vie

INDUSTRIES AUTOMOTIVE MEDICAL DEFENCE INDUSTRIAL SEMICONDUCTOR OTHER



Neways is proud to have been a partner of the Solar Team Eindhoven since 2013, a team of students at the Technical University of Eindhoven

They have developed the Stella Vie, an aerodynamic car that runs completely on solar energy. In 2017, Stella Vie won the family car category of the World Solar Team Challenge, a race lasting seven days and 3,000 kilometres through the Australian desert.

Neways provided a wide range of expertise and practical support to the team. We helped the students with the architecture, the design of the cabling, the choice of electronic components and fast production of the electronics. We also guided them with project management and the development and verification model.

Despite its smaller battery, the car can travel 1,000 kilometres on a sunny day. It is also the first solar-powered car to seat five people. The Stella Vie can thus be called the world's most energy-efficient family car.

Markets and trends

Without noticing it, electronics is playing an ever increasing role in our work and our daily lives. New digital technology and the Internet of Things are placing more electronics in the devices we use every day. Electronic components are becoming smaller, more accurate and more efficient and devices are becoming more intelligent. Functionality is increasing, and with it the extent to which electronics feature in the products and end productions of our customers. This long term trend is continuing and is irreversible.

In 2018, the global economy grew 3.0% while growth in the eurozone was 1.9%.[1] The OECD expects[2] economic growth will weaken somewhat in 2019 due to a higher oil price, less accommodative monetary policy, geopolitical uncertainties and the potential for a trade conflict. A weaker economy can lead to lower investment, especially in a cyclical sector such as semi¬conductors.

Trends in customer demand

More emphasis on quality

An increasing number of OEMs are looking not only at the lowest production costs, they are also looking at quality and the cost of ownership for a product's entire lifecycle. Customers in the sectors that Neways operates in are expected to produce end products of the highest quality. This also means that the electronic components that we make for them must achieve zero defects as far as possible. For products with a high mix of components and low production volume, Neways uses Advanced Product Quality Planning (APQP), a framework for industrial production techniques and procedures at OEMs and their suppliers. This framework originates from the automotive industry, but is also suitable for low-volume, high-mix products in other sectors. The framework achieves standardisation of production methods between OEMs and suppliers and ensures quality in introductions of complex products by means of a more process-oriented approach and planning. Examples of areas in

EMS markrt sectors

- **Communication**
- **Automotive**
- **Semiconductor**
- **Medical**
- **Computer**
- **(Renewable) Energy**
- **Industrial**
- **Aerospace & Defence**

Neways focus growth sectors

- **Automotive**
- **Semiconductor**
- **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] *World Bank. 2019. Global Economic Prospects, January 2019: Darkening Skies.*

[2] *OECD Economic Outlook, November 2018.*

which our customers expect higher quality include the robustness of design and production, more extensive and more in-depth testing, the design of the production process, compliance and certification, regulation and inspection standards, and packaging. End products and other products are also becoming more complex and require more maintenance and support after delivery.

More co-innovation

For many of our customers, innovation is a determining factor for their competitive position and a driver of future growth. For them, continuous investment in new technology is a must. The costs and risks of investing in the wrong technology are on the other hand all the greater.[3] At the same time, it is a challenge for many OEMs to keep up with all the technological developments and improvements that are happening in the chain. Suppliers like Neways are ideally positioned to assist in this. The sectors in which Neways operates frequently feature long supply chains and complex production processes. This is where it is attractive for OEMs to design their innovation and production development in cooperation with a product lifecycle partner such as Neways.

More flexibility and chain management

OEMs are looking for greater flexibility to enable them to better anticipate customer demand. For this, they are increasingly turning to their suppliers. Operating systems are becoming more complicated, more expensive and involve more components. Planning updates are becoming more frequent. Customer therefore need supply chain management expertise more frequently. The current scarcity of components in the market is increasing this demand.

As a supplier, Neways understands the chain from the inside and has the knowledge and expertise in house to take over the role of chain manager for its customers and work with

Market challenges

- 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
- Scarcity of certain components and technically trained personnel

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] *KPMG, 'Global Manufacturing Outlook 2018', June 2018.*

them to design the best supply chain plan and alternative sourcing solutions and thus also improve supply reliability.

Together, these three customer trends require transparency in the chain and readiness to share data. They also call for a trusted outsource partner with scale that is able to manage the entire product lifecycle of electronic components and grow with the customer. Neways can and aims to be such a partner for its customers.

Growth sectors

Neways focuses on five strategically selected market sectors, each of which has its own strong fundamental growth drivers for the long term.

Semiconductor

The semiconductor sector is of course cyclical, but it benefits strongly from economic growth and the demand for products such as smartphones, tablets, e-mobility and other 'smart' devices. It is, however, a sector that suffers more than most if there is a global economic slowdown. Within this sector, major opportunities for Neways lie in microprocessors for artificial intelligence applications and the Internet of Things.[4]

Automotive

In the automotive sector, e-mobility is a particularly important and promising growth area for Neways. The transition to green energy and investment in the capacity of lithium batteries are important conditions for and drivers of this growth. Whereas in 2017 electric vehicles numbered 1.1 million around the world, it is estimated that this will increase to 11 million in 2025 and 30 million in 2030, as the total cost of ownership of electric vehicles becomes less than that of vehicles powered by traditional combustion engines. China will play an important part in this transition, as it is estimated to account for 50% of this market in 2025.[5] Moreover, sensors for autonomous vehicles and demand for electric charging points will increasingly offer opportunities for Neways over time.

Medical

With an ageing population and the related pressure on costs and financial resources, there are numerous technological developments happening in e-health that are making health care more affordable and accessible. Medical equipment is becoming smaller, more functional and more accurate. This also includes the development of wearables. Good medical care is therefore becoming accessible and available to many more people around the world. Diagnosis and treatment can be carried out with greater precision. Smart medical equipment connected via Bluetooth or Internet is improving diagnosis, making care more affordable and enabling better analysis of data. This new generation of equipment calls for much greater expertise in the area of product lifecycle management than traditional medical equipment. The global market for medical equipment is expected to grow at a rate of 4.5% a year, and will amount to more than $ 400 billion in 2023.[6]

Industrial

Industrial is a large and diverse sector. For Neways, it includes for instance manufacturing and agriculture. This sector continues to be an important contributor to employment and economic growth around the world. Neways customers need to become more efficient in their production processes with respect to energy, meaning that they need new operating systems designed to manage this. We are also seeing ongoing development in artificial intelligence in many markets and sectors. This is making production systems more flexible, more stable and more accurate and means that they can adjust automatically to new product parameters. Together with automotive, industrial is expected to be the major growth sector in Europe.[7]

Defence

The defence budgets of the NATO countries are increasing, while defence systems are increasingly based on more electronic components. Some of the trends in this sector are a greater focus on the cyber security of linked defence systems and a shorter service life of electronic components in tanks and aircraft. Defence spending will rise globally by around 3% per year, and reach $ 2 trillion in 2022.[8]

[4] *KPMG, 'Global Semiconductor Industry Outlook, 2018' February 2018.*

[5] *Bloomberg NEF, 'Electric Vehicle Outlook', 2018.*

[6] *Medical Device Market Report: Trends, Forecast and Competitive Analysis, April 2018.*

[7] *PwC, 'European Economic Outlook, 2018-2022'.*

[8] *Deloitte, '2018 Global aerospace & defense industry outlook'.*

SWOT analysis

Strengths

- In-house technical design and engineering capacity
- Full service product lifecycle 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
- Ability to rank projects by priority

Weaknesses

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

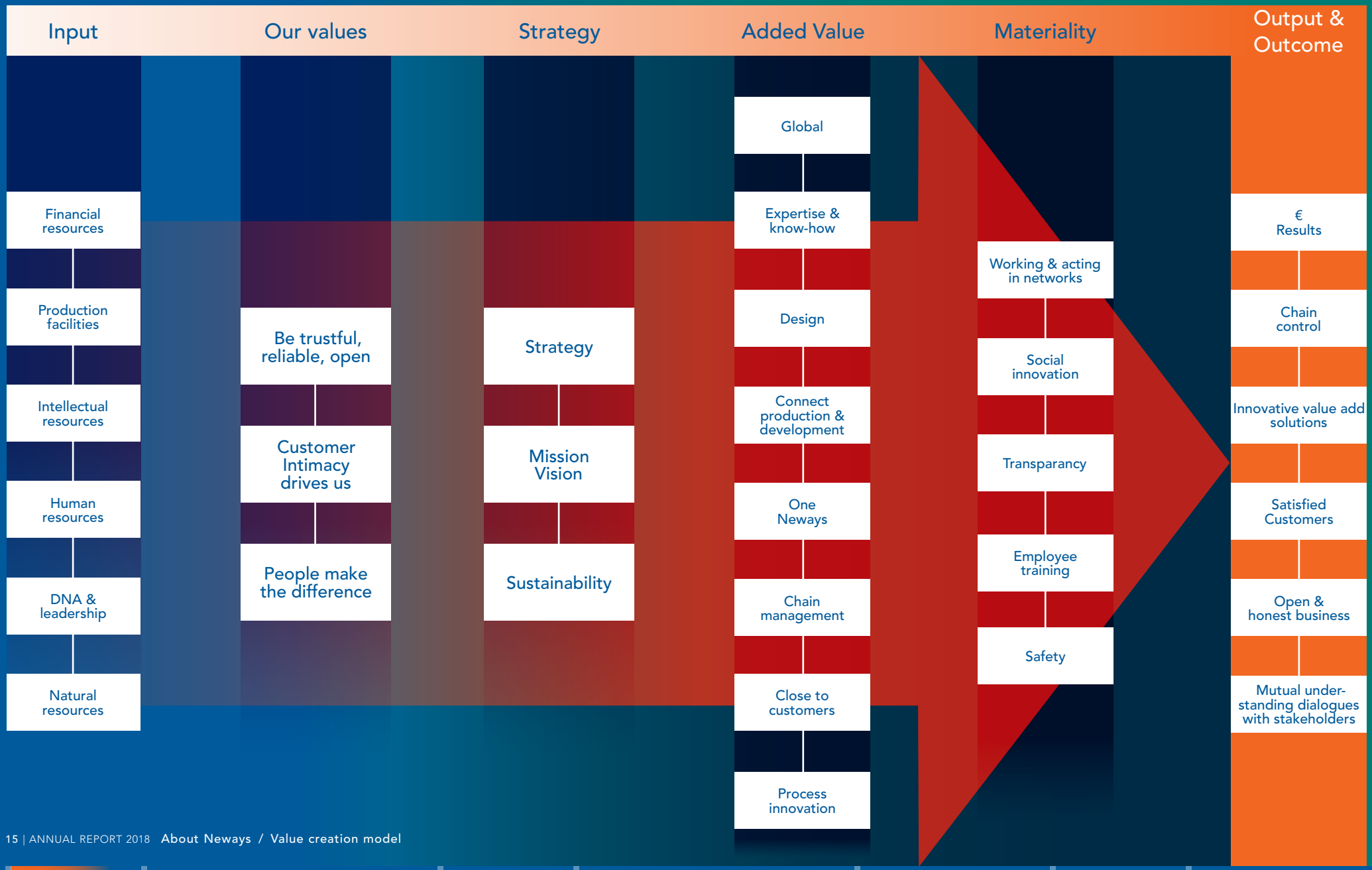
Opportunities

- Increasing number of intelligent devices
- More added electronics per device
- OEM partnerships on the basis of Design For Excellence
- Demand for product lifecycle 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
- Scarcity of certain components
- Scarcity of technically trained personnel

Value creation model



Transfer to production

"As an Account Engineer, I have a wide-ranging job. I am the first point of call when a customer has technical questions or comments. As part of a Customer Focus Team, I visit the customer every Monday to discuss ongoing projects.

I am also a project leader for New Product Introductions (NPIs). If a customer wants to launch a new product, they will come to us with a design. It is then our job to translate this design into a project with clear and separate phases: from review and testing through to production, which leads to a product that finally emerges from the factory. These products range from PCBs to complete box-build systems. On average, our team handles two new product introductions every week.

We look carefully at the specifications provided and discuss these with a multi-disciplinary team of various engineers. We suggest improvements as early as possible. Sometimes, a design does not adequately take account of the lifecycle or availability of the components needed. We always advise the customer as soon as possible as to how to achieve the highest quality at the lowest possible price. That is Design for Excellence at Neways."

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DEVELOPMENT | TRANSFER TO PRODUCTION | PRODUCTION | SALES | AFTER SALES | CONTRACT MANAGEMENT

WESLEY BASTIAN
RESIDENT ACCOUNT ENGINEER
NEWAYS INDUSTRIAL SYSTEMS

Ambition and strategy

Ambition

Our ambition has not changed. We want to be the technology and product lifecycle partner of choice for Original Equipment Manufacturers (OEMs) and first-tier suppliers in a number of structural high tech growth sectors.

We are moving up in the value chain. Whereas previously we operated primarily as an Electronic Manufacturing Services (EMS) company, these days we are involved in the planning of many more aspects with our customers. More and more, we are working on the development of new products, we provide a more efficient design of production processes and offer better planning and chain management. We want to be a trusted long-term partner, and in this capacity make a significant contribution to optimising the total cost of ownership of a product.

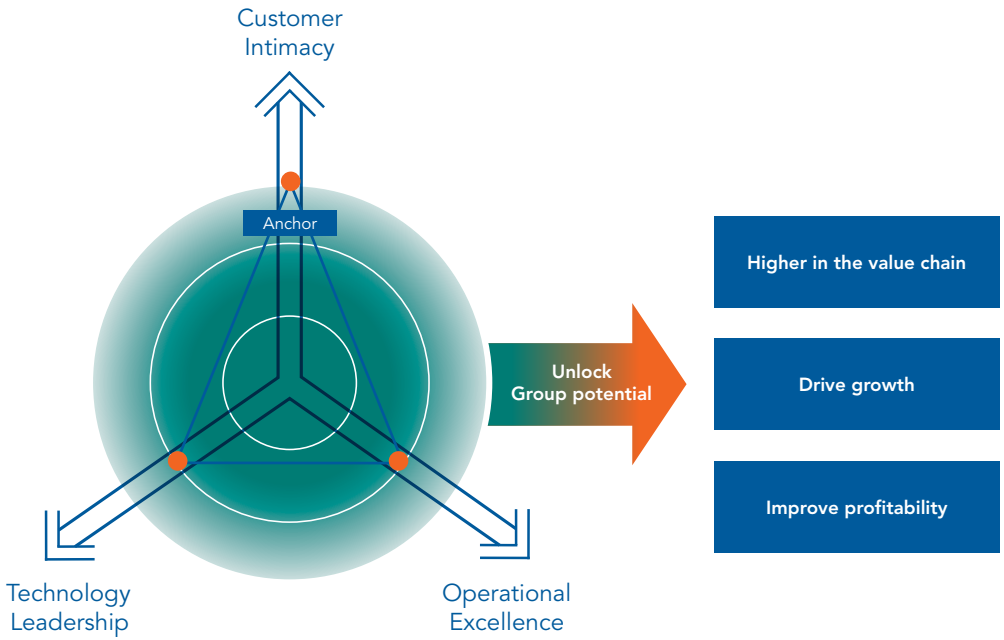
Our ambition fits perfectly with the changing demand and the increasing calls of customers on the in-house expertise of suppliers (for more details, see the section on Markets and Trends on page 11).

Long-term strategy

To realise this ambition, our long-term strategy is anchored in three pillars.

1. *Customer intimacy:* we need to have a very good understanding of what is happening at our customers, what they are doing and what their plans and challenges are. We have to thoroughly understand our customers and the sectors in which they operate. This often concerns the customer of the customer.
2. *Technology leadership:* in all phases of a product's lifecycle, we have to be able to contribute ideas for optimal product development solutions and planning through to the production process and the sourcing of materials.
3. *Operational excellence:* customers have to be able to count on fault-free products and seamless execution, resulting in a high degree of supply reliability.

We will continuously invest in these three pillars so as to optimally cater for the increasing focus on core processes by OEMs and the increased degree of outsourcing of non-core processes to partners in the chain.



Customer philosophy

Our customer philosophy is simple. Mutual dependency in the chain is now greater than ever. We want to work for customers who are aware of the benefits of close cooperation. Customers who want to invest in exchange of expertise with a trusted partner in order to collectively achieve an optimal total cost of ownership.

This mutual dependency emphasises the need to create and expand the partnerships with our customers. We want to be so closely involved in the chain and the activities of our customers that they see our technical expertise and role as chain manager as essential. We currently still see a lot of unused potential and this is regrettable.
We can help our customers unlock this potential. This is certainly no longer all about the lowest price, it is about a full-service solution, and the expertise and flexibility that we can offer as a partner which are needed in today's fast-moving world to operate more intelligently and effectively with a short time-to-market.

All this begins with the readiness to offer mutual transparency.
It is then our people's job to make enquiries to determine the real issue and the underlying need. This enables us to better understand the context of an issue and identify the best solution.

Arrogance is not a part of our culture, but we do want our partnerships to be based on equality. Of course we are of service to our customers, but this does not prevent us taking a critical view with respect to the best solution and wanting to enter into a dialogue on matters where we have adequate expertise to do so. We have to be clear in the choices we make and our proposals to our customers. These choices must demonstrably add value for them. At the same time, they also have to fit into our own long-term vision, so that we can also create more value for our shareholders and other stakeholders.

Chain management

The components and systems we assemble consist of a growing quantity of different materials and parts, meaning that we depend on hundreds of suppliers in the chain.
In addition, certain components are scarce in today's market. This means that there is an additional challenge with respect to supplying products and bringing them to market on time and according to schedule. Our strategy and chain organisation varies widely from one product category to another and is structured according to the specific supplier market for the category in question. We are very aware of our global footprint and strive to structure chains in the region of one of our operating companies where possible. This is better for the environment, saves costs and is logistically more efficient.

Neways applies a clear QLTC approach (Quality, Logistics, Technology and Cost) in order to fulfil a decisive and coordinating role throughout the chain. Generally, we do not use dual sourcing, but we do make sure that there are always sufficient alternative components or manufacturers available. We want to generate as much revenue as possible with a limited number of suppliers and spend the majority of our procurement budget with them.
This strengthens our partnerships with our major suppliers and reduces chain complexity. More than before, we are entering into strategic partnerships with manufacturers in order to gain direct access to technological developments in the chain, availability of components and the costs thereof. With respect to cost, we always look for the optimal total cost of ownership.

As a chain coordinator, with our major partners we can be better and smarter with respect to using our ability to innovate and provide lifecycle management solutions for our customers. If we integrate the whole chain more closely and design various steps more with each other's qualities in mind, we can begin discussions with our suppliers and manufacturers while the customer is in the design phase and thus shorten the time-to-market, reduce the total cost of ownership and increase supply reliability. If we participate in the design and development phase of a new product, we can proactively advise our customers as to how they can optimise their design with respect to manufacturability, functionality and cost. For instance, when specific components are involved that may be difficult to obtain in certain volumes or are going out of production. This creates a collective responsibility. By rewarding our suppliers in this way, we become an integral part of the solution.

The complexity of the chain is actually not only a risk (for further details, see the section on risk on page 45), it is also an opportunity for improving our service to customers. We are continually developing expertise and new insights with respect to chain management and sourcing. Through our contacts with suppliers, manufacturers and their production and technology road maps, we know the availability of certain components, the alternatives and the latest upgrades. We have good insight into quality and supply reliability and the second sources that are available. This enables us to make the right choices and design the supply chain as efficiently as possible and make this transparent for our customers. This means that we provide customers with a realistic schedule and can make rapid adjustments in case of interruptions.

Strategic priorities and initiatives

The long-term strategy and customer philosophy are translated into certain more concrete priorities and strategic initiatives.

Strengthening competitive advantage

- Progress the development of technological knowledge and lifecycle management competences
- 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 lifecycle 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 product-market combinations (PMCs)
- Greater emphasis on marketing and acquisition of new customers and new business
- Build a presence and develop high-quality engineering and development activities at existing and new customers in the chosen focus sectors in Silicon Valley (California)

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 and strengthen QLTC (Quality, Logistics, Technology, Cost) 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

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

Business, operational and financial review

Neways benefited from strong market demand and previously effected process improvements in 2018. Revenue increased by 15.5%. We are more customer-oriented. We are better able to move with our customers and we have a better understanding of the challenges facing our customers and their customers. This has also meant that we are working more efficiently and effectively. This led to an increase in operating profit of 46.9% in 2018. Our operating margin increased from 3.5% in 2017 to 4.3%. Net profit was up 45.5% to € 14.4 million.

This substantially higher level of activity placed additional demands on our organisation and our people. In addition, we persevered with the introduction of our new working methods and the continuous improvement of our organisation. This can be compared to repairing a car while driving at high acceleration.

Our complement of flexible employees was fully employed for a large part of 2018. There was a lack of capacity at some operating companies at the start of 2018, meaning that production orders could not be delivered on time in all cases. This backlog was worked off at most operating companies during the course of the year, largely due to the high level of commitment and overtime worked by our employees. Further improvements in our operational processes and inventory management are still therefore needed.

We are increasingly seeing the Neways DNA and the new working method at all layers of the organisation. We have further deepened our technical expertise and are managing our operating processes more efficiently and in a more targeted manner. This is enabling us to enter into a dialogue with our customers at a higher, more strategic level. We are therefore better positioned to look at alternative solutions together with our customers in order to cope better with the scarcity of certain components in the market. Partly as a result, we obtained more control during the year over supply reliability, which was under pressure due to exogenous factors such as the scarcity of components and the much higher level of activity. These efficiency gains show how as an organisation we reap the benefits of our ongoing improvement programmes.

This certainly does not mean there is nothing left to do. Change is a continuous process. Wishing to forge long-term partnerships with customers also means that you have to be open, honest and clear, not only with respect to what is possible, but also what is not

possible. One important item of attention is that account managers and managers make clear agreements with our customers as to how we can best fulfil their orders on the basis of our knowledge of the product and the supply chain. This mainly concerns the achievement of an optimal total cost of ownership and setting a realistic delivery deadline. This is a change of mentality, from thinking in terms of turnover to thinking in terms of return, that we will continue and thereby be better positioned to fulfil our role as a technology and product lifecycle partner.

Competence centres

We continued the expansion of our competence centres in 2018. These centres are centrally managed, and have the aim of concentrating technical expertise and disseminating this within the Group. A competence centre is managed by an operating company, which ensures that best practices in the relevant area of expertise are brought together and can be used by all our operating companies. This encourages efficient working methods and creates the scale in these areas of expertise that Neways needs to realise its ambitions. A competence centre for Functional Testing was set up in 2017. In-circuit Testing was added in 2018, as a result of which we have increased our expertise in the field of testing. Feedback from our customers confirms that Neways has achieved a high standard here in comparison to our competitors and customers. The expansion of the competence centres means that this expertise will be more accessible within the Group. In 2018, we also set up competence centres for Surface-Mount Technology (SMT), Design for Manufacturing (DfM), and Flexible Manufacturing. These are areas of strategic importance for Neways.

Harmonisation of business processes and systems

Neways started Project ONE in 2018, a strategic initiative with the aim of harmonising business processes and working practices within the Group. This project includes various sub-projects, the first of which was started in 2018 and led by a steering group. Part of this process concerns an inventory of all our business processes.

As part of Project ONE, a number of projects were carried out in 2018 to improve financial or logistical processes. New working practices will be established based on best practices. This will initially be introduced at two operating companies.

Based on the experience gained, processes and working practices will be definitively adopted and then rolled out at the other operating companies. This approach will gradually harmonise our business processes.

In addition to starting the harmonisation of the business processes, the foundations of the processes relating to the ICT architecture, the financial structure of the Group and data management and maintenance will be reviewed. Once the foundations of One Neways and the future working practices have been described and established, we can work further on harmonising working practices in the years to come.

Expansion of production facilities

The expansion of the production capacity in Wuxi (China) and Neunkirchen (Germany) was completed in 2018. The facility at Neunkirchen was expanded by 1,000 m^2, and now has a total floor area of 5,500 m^2. We have also invested in more modern production technologies and machinery. Neways is thus meeting the growing and more complex demand from OEMs in Germany, most of which operate in the automotive sector. The production facility at Wuxi has been moved to another location with a floor area of 6,000 m^2, an increase in capacity of 30%. The production areas are air-conditioned and divided according to the LEAN principle in order to optimise materials flows. The facility in Děčín will be given a completely new production hall. After delivery in 2019, the facility's floor area will more than double to 8,250 m^2 and around 120 new jobs could be created. This expansion means we will be better able to meet the growing demand.

New IoT partnerships

Neways joined IoF2020 and INTER-IoT as a partner in 2018. IoF2020 is a platform supported by the European Union that aims to improve sustainability and the competitiveness of the European agricultural sector through the application of the Internet of Things in the sector. The platform has around 70 partners, ranging from knowledge institutions, not-for-profit organisations and businesses, and is led by Wageningen University & Research. Neways provides expertise, for instance by defining business models and guiding product introductions. INTER-IoT is a consortium in the field of the Internet of Things. The purpose of this venture is to link several IoT systems that are now closed and mostly operate independently together in order to unlock the potential of the technology.

Financial results

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

€ million unless otherwise stated	2018	2017
Operating profit	21.0	14.3
Exceptional income and expense:		
Amortisation of BuS Purchase Price Allocation	1.0	1.0
Normalised operating profit	**22.0**	**15.3**
Net profit	14.4	9.9
Exceptional income and expense (after tax)	0.7	0.7
Tax asset relating to loss carryforwards	0.0	–0.6
Normalised net profit	**15.1**	**10.0**

€ million unless otherwise stated	2018	2017	Δ
Net revenue	506.8	438.7	15.5%
Order book	304.0	263.6	15.3%
Order intake	547.2	556.6	–1.7%
Book-to-bill (ratio)	1.08	1.15	–6.1%

Net revenue rose by 15.5% to € 506.8 million in 2018. All this growth was autonomous. The high level of activity is also shown by the order book, which grew by 15.3% to € 304.0 million, compared to € 263.6 million at the end of December 2017. The book-to-bill-ratio was 1.08. The greatest increase in orders was in the semiconductor sector.

Net revenue – by market sector

€ million unless otherwise stated	2018	2017	Δ
Industrial	152	143	6.3%
Semiconductor	149	105	41.9%
Automotive	130	103	26.2%
Medical	56	55	1.8%
Defence	12	15	–20.0%
Other	8	18	–55.6%
Total	**507**	**439**	

The increase in net revenue was mainly due to higher revenue in the semiconductor and automotive sectors.

€ million unless otherwise stated	2018	2017	Δ
Gross margin	195.2	171.3	14.0%
Normalised operating profit	22.0	15.3	43.8%
Margin	4.3%	3.5%	

The gross margin was up 14.0% due to the higher net revenue. The growing demand for complex box-build systems led to an increase in the quantity of materials components. Operating costs rose by 11.0%, mainly due to the increased activity levels. Normalised operating profit was up 43.8% to € 22.0 million, representing a margin of 4.3%. Operating profit including exceptional items increased 46.9% from € 14.3 million to € 21.0 million.

€ million unless otherwise stated	2018	2017	Δ
Financing costs (net)	2.0	1.6	25.0%
Tax burden (in 2017 excl. valuation of tax asset in Germany)	24.3%	26.9%	
Net result	14.4	9.9	45.5%
Earnings per share (€)	1.20	0.86	39.5%
Dividend per share (€)	0.48	0.35	37.1%

Increased use of customer finance programmes and the increase in working capital as a result of the higher revenue led to an increase in finance costs of 25.0%.

€ 3.9 million of convertible subordinated loans was converted into shares in 2018. Together with the exercise of employee share options, this led to an increase in the number of outstanding ordinary shares to 11,957,624.

The tax burden of 24.3% in 2018 was lower than the 26.9% in 2017. Including the valuation of the tax asset in Germany in 2017, the tax burden in 2018 was higher than in 2017. Net profit and earnings per share accordingly increased by 45.5% and 39.5% respectively to € 14.4 million and € 1.20 per share, on the basis of the shares outstanding at year-end 2018.

The dividend proposal for 2018 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 per share of € 0.48 was thus higher than the dividend for 2017 (€ 0.35 per share).

Financial position

€ million unless otherwise stated	2018	2017	Δ
Cash flow from operating activities	7.6	3.2	137.5%
Capital expenditure	–12.1	–6.6	83.3%

Cash flow from operating activities totalled € 7.6 million, an increase of 137.5% which was due primarily to the increase in profit, with a rise in inventories due to the higher level of activity in combination with the scarcity of components in the chain.

Net working capital increased to € 87.7 million at year-end 2018, compared with € 79.4 million at year-end 2017. Inventories and receivables increased due to the higher activity levels. Inventories measured in turnover days rose from 76 days at year-end 2017 to 85 days at year-end 2018. The number of outstanding receivable days was 36, compared to 36 days in 2017, which was partly due to the ongoing customer finance programmes. The increase in payables outstanding is directly related to the high level of activities.

Capital expenditure amounted to € 12.1 million (2.4% of net revenue) and was thus higher than the level of depreciation and amortisation. Investments mainly comprised replacement and expansion investments in materials and resources. The return on capital employed was 21.0%, compared with 16.5% in 2017.

€ million unless otherwise stated	Year-end 2018	Year-end 2017
Net debt/EBITDA ratio	1.4	1.6
Interest coverage ratio	11.2	10.2
Solvency (based on guaranteed capital)	41.9%	44.0%

Net debt at year-end 2018 came to € 41.9 million, an increase of 12.6% on year-end 2017, mainly due to increased use of current account credit facilities, and partly offset by conversion of convertible subordinated loans into shares. EBITDA for the last 12 months (LTM) rose by 29.1% to € 30.2 million, compared with € 23.4 million at year-end 2017. The net debt / EBITDA ratio was 1.4, an improvement on year-end 2017.

Interest coverage showed a clear improvement due to the higher operating profit, which had more of an effect on the ratio than the increase in interest expense. Solvency was 41.9% at year-end 2018, compared with 44.0% at year-end 2017.

Neways complied with the covenants at year-end 2018. EBITDA for the last 12 months (LTM) stood at € 30.2 million and thus comfortably satisfied the requirement of at least € 10 million. The guaranteed capital totalled € 102.7 million. The adjusted guaranteed capital (guaranteed capital less intangible non-current assets and deferred tax assets) was € 88.7 million at year-end 2018. This is above the applicable requirement of € 55 million. The minimum requirement for 2019 and 2020 is also € 55 million.

Highlights 2018

Teamspirit soccer tournament
The Teamspirit Soccer Tournament was organised again last summer. New teams participated again this year, and for the first time there was an all-female team in the tournament. This annual tournament is an important opportunity for employees from the various Neways locations to get to know each other.

Business Run Marathon Eindhoven
Neways put in a sporting performance in October with three relay teams participating in the Eindhoven Marathon, the biggest sporting event in North Brabant. The team from our NAA facility was the first of the three Neways teams to reach the finishing line.

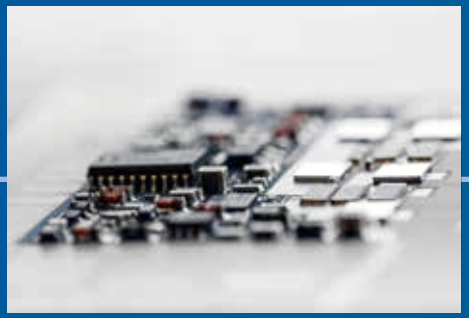
Expansion of the Neunkirchen facility
After eight months of planning and construction, the facility at Neunkirchen was expanded by 1,000 m^2 and the opening was celebrated in October.
The office space and production area have been fitted with state-of-the-art facilities and together have a floor area of 5,500 m^2.

Internet of Things
The Internet of Things (IoT) offers many opportunities for consumers and industry. As a high-tech manufacturer, Neways has participated in two large European projects since 2018: INTER-IoT and IoF2020. These projects have the aim of increasing the interoperability of various IoT platforms and applying the IoT in agriculture.

New company film
Neways has produced a new company film that illustrates the services and competences of the Group. Among other things, the film looks at the sectors served by Neways and how it forms its strategic partnerships.

Electronics exhibition
In November, Neways attended the electronics exhibition in Munich to present the Stella Vie, a car fully powered by solar energy developed by students at the TU of Eindhoven. This is a world-recognised leading exhibition that is held once every two years. Further information on the Stella Vie is provided on page 10.

Miniaturisation
Electronics are gaining in functionality while becoming smaller and smaller. To benefit from this trend, Neways is developing a robust industrial solution for the miniaturisation of electronic applications. The project team started with the industrialisation phase in 2018, and in 2019 it will introduce this innovation as a fully fledged volume production process.



New website
Our new corporate website provides a clear and convenient overview of the different areas of expertise and competences of the various operating companies. The website also gives existing and potential customers the direct contact details of designated account managers to facilitate personal and rapid contact.

Golfing day
Again this year, the Neways Electronics Open 2018 for customers and employees was held at the sun-drenched golf course at Best, followed by a bonus in the form of a musical performance at the '19th hole' to close another successful day.

Riesa exchange programme
A 4-day exchange programme was held in August for interns and working students at the facilities in Riesa and Neunkirchen. In addition to a visit to the head office in Son, attention was devoted to matters including the core values of Neways, the forming of social contacts and presentational skills in an informal setting.

Young Potential Talent Program
As part of its management development, Neways started the Young Talent Program in 2018. This programme helps talented young employees to develop their talents, develop themselves and increase their impact on the organisation.

Relocation at Wuxi
Our Chinese production facility was relocated in October to a new, larger and more modern location. The building has floor space of 6,000 m^2 divided over three floors, and provides an increase in capacity of 30%. The production spaces are air-conditioned and designed according to the LEAN methodology to obtain maximum efficiency and economy with regard to use of materials and energy.

Management agenda and outlook

Our improved performance in 2018 confirms to us that we have made the right strategic choices and that we are heading in the right direction.

We are convinced that the market trends and the development of customer demand on which our strategy is based are long-lasting and will be maintained around the world for a long time to come. It will always be the case that short-term cyclical developments and other exogenous shocks will affect our strategy execution and performance. A global recession, trade barriers or geopolitical unrest are among the risks for our performance, the realisation of our strategy and how long this realisation will take. For instance, the shortage of technically trained talent could restrict our growth. We also expect the current scarcity of components to continue for the time being.

Neways has positioned itself well in recent years to benefit from structural market trends and the increasing demand from OEMs for more cooperation in the chain. The priorities we have set ourselves with regard to the execution of our strategy were redefined in the course of 2018. In 2019 we will continue to invest in improving our organisation and operational processes in order to serve our customers better, and deepen and fulfil our proposition as a product lifecycle partner for OEMs.

Outlook

Our order book was well filled at the end of 2018 and we have made a good start in 2019. At the same time, we are facing more uncertainty in the global economy and the scarcity of components continues to be an issue. Our dependence on the chain is significant in this respect. Interruptions or delays at our own or other suppliers could lead to scheduling changes by our customers.

Our task is to deal with these market conditions together with our customers and other players in the chain as effectively as possible. We will strive to continually improve our role as a product lifecycle partner. We will accordingly continue the implementation of our strategy in 2019, in which the central issues are improving our operational processes and scalability, our customer orientation and our role as chain coordinator. Apart from unforeseen macroeconomic conditions, we expect net revenue and operating profit to be higher for the whole of 2019 compared with 2018.

Roll-out of Neways DNA and LEAN leadership training programme to operating company in China	Identification and knowledge accumulation new PMCs for higher added-value solutions	Progress on simplification and standardisation of the supply chain with focus on materials purchasing and better supply risk management
Further strengthening of central alignment with QLTC processes and reducing the workload of operating companies	Strengthening and expanding long-term partnerships by applying customer intimacy principles	Further strengthening of engineering organisation by growth in number of development architects and closer cooperation with operating companies

Organisation and employees

There have been many changes at Neways in recent years. Our core values and the Neways DNA were defined in 2015, and improvement programmes were introduced. The result of this is that we were operating much more efficiently in 2018. We are more solution-oriented, more efficient and are more aware of developments at our customers and in our markets. We have also managed to retain the Neways culture of mutual respect.

Organisation

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. Its role was also strengthened through new central functions in the fields of logistics, engineering, quality and compliance in the past three years. Besides a coordinating role, the holding company increasingly supports the operations directors and managers of the 14 operating companies. At the end of the 2018 financial year, the holding company employed 59 people (2017: 57).

Employee mix

In addition to 2,998 full-time employees (at year-end), Neways has a flexible workforce of 444 temporary employees. These are on-call workers who are used primarily to deal with peaks and troughs in batch production. All our on-call employees are in principle eligible for permanent employment with the Group.

Employee participation

An employee participation structure exists at 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. Employees are also represented by works councils at our three German operating companies.

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"

The CON met on six occasions in 2018, which is in line with the average. Regular themes at the CON's meetings include market developments and the latest results, as well as HR policy.
In the past year, particular attention was devoted to the composition of the CON, cooperation between the various operating companies, the amendment of the various employee schemes, the transition of the holding company to the Metalelektro collective labour agreement, internal relocations of the facilities at Wuxi and Neunkirchen, the new European privacy legislation and the code of conduct, which was published on the corporate website in August.
Neways has been in contact with the FME and the employer associations with respect to the new collective labour agreement for employees of the holding company.

Corporate culture

Our corporate culture is an important part of the identity of Neways. We want to be a people-oriented company with much individual attention to employees and their personal development. We believe in a culture in which people feel safe and are able and willing to express themselves and to develop. This is the experience of many of our employees, despite the fact that the Group is becoming increasingly international and the number of employees continues to rise. One often hears it said that in our organisation you are not a number, and you can make a difference as an individual. This leads to motivated and committed employees and a relatively low level of absenteeism.

New ways of working

The quality required by our customers continues to increase, projects are becoming larger and more complex. This requires a more commercial attitude from our employees. The new way of working introduced for this in 2015 calls for a change in conduct, that by its nature takes longer to achieve.

At any company, there is always a degree of resistance to change. What is important for us is that the new ways of working are embraced throughout the organisation. To achieve this, we are building teams with change-oriented managers and employees who are taking the lead within our organisation. Personal attention and internal communication that stress the need for the new ways of working are crucial for creating broad-based support. The change management workshops held in 2018 have underlined the importance of this and contribute to the effective implementation of our new way of working. The support of the CON and the works council is also essential in order to create support. In addition, we are taking a simple top-down approach, whereby the Board of Directors itself takes the lead and shows the direction of the new way of working and actively looks for dialogue with the operational directors of the operating companies, thus making a connection with the strategic objectives and ambitions of the Group. The operational directors in turn reflect this in the form of more concrete steps and changes that are then implemented by the team managers.

We have again made good progress in this respect in 2018. All our employees understand what is expected of them. This concerns things like a proactive attitude to work, customer-oriented thinking, fulfilling agreements and having the courage to call each other to account when something goes wrong or can be improved. We have observed desirable behaviour on the shop floor more frequently in 2018. It is also still the case that the positive features of our corporate culture should be retained as far as possible.

An attractive employer

The labour market is getting tighter as a result of economic growth and the positive condition of the economy.
This applies all the more to technically trained talent, in particular engineers and system architects. Employer branding is an important condition for success in the competitive market for scarce talent.

Neways naturally offers competitive salaries with good secondary benefits, but above all it positions itself as a company with individual attention to its employees and great potential for career development. The size of our business is in our favour, as we are large enough to offer talent access to an attractive international arena. We also offer great potential for gaining experience of the various aspects of our work relatively quickly and easily.
At the same time, we are not so large that our culture is anonymous.

We actively approached the market with this employer branding proposition in 2018. Among other things, we participated in job fairs in Germany, made connections with technical universities and colleges and organised several talent speed dates.
We are particularly looking for talent that feels attracted to our proposition and wants to join forces with Neways for the longer term. We prefer people who fit our Neways DNA culture and who are prepared to train and learn new skills. In addition to technical and work-related training, we also offer courses for management development. The range of internal and external training that we offer will become increasingly important within the Group in the coming years.

We made a start on this in 2018 with the Young Potential Talent Program, with an initial intake of 12 employees. The programme runs for 12 months and trains young talented people (university level educated and with a number of years work experience) in leadership and management skills. The programme includes team events, self-reflection and mentor interviews. On completion, the participants are better able to lead professional projects, deal with conflicts and achieve agile improvement on a daily basis in a manner designed for daily working situations at Neways.

We see this integrated approach as a more sustainable way of attracting the right people and retaining them for a longer time. This does not change the fact that Neways will have to continue to increase its attractiveness as an employer by being creative and developing more initiatives to find and retain the right talent.

Production

"I have been working at Neways for 20 years and I love my job. I have seen many changes in that time. Currently, I am a Senior Electronic Assembler and I coordinate a team of 30 colleagues. Every morning, I check the number orders we have to process and I assign the work. We are very busy at the moment, but all my colleagues are very flexible and are ready to work on Saturdays if necessary. We regularly produce hundreds of products every day.

It is important that the colleagues know who the customer is and the end product for which the parts they are making will be used. Whether it is an MRI scanner or another item of medical equipment, they know that the ultimate purpose of what they are doing is people's health and that quality is hugely important.

We evaluate quality and efficiency with the whole team on a daily basis. It is important that you communicate openly and have attention for each other in order to ensure the level of quality that our customers expect. We always strive to achieve perfection, this is the only way to really be a partner for your customers."

PARTNER IN DRIVING EXCELLENCE

DEVELOPMENT | TRANSFER TO PRODUCTION | PRODUCTION | SALES | AFTER SALES | CONTRACT MANAGEMENT

CARMEN VORSTENBOSCH-ANTONIO

SENIOR ELECTRONIC ASSEMBLER AND TEAM COORDINATOR

NEWAYS ADVANCED APPLICATIONS

Corporate Social Responsibility

Our starting point with respect to corporate social responsibility is to integrate this as deeply as possible in our normal business operation and our strategic pillars: customer intimacy, technology leadership and operational excellence. On this basis, we make conscious choices with respect to the aspects of sustainability over which Neways can have the greatest impact.

We strive to make sustainability considerations and alternatives in the medium term an integral part of our advice to customers with respect to product lifecycle management. This concerns for instance the use of more environmentally friendly materials, a more sustainable design of production processes, reducing residual waste and reusing materials. This very much fits our ambition to be a long-term partner for our customers.

Neways applies the following priorities with respect to responsible business operation:

- maintenance of a safe working environment;
- promotion of efficient use of water and energy;
- reduction of waste and promotion of reuse;
- increasing local materials procurement;
- encouraging a fair supply chain and more awareness in the choice of materials;
- encouraging young people to take an interest in technology.

Performance indicators were clearly defined and measured for the first time in 2018, with baseline measurements established at Group level.

Our sustainability vision

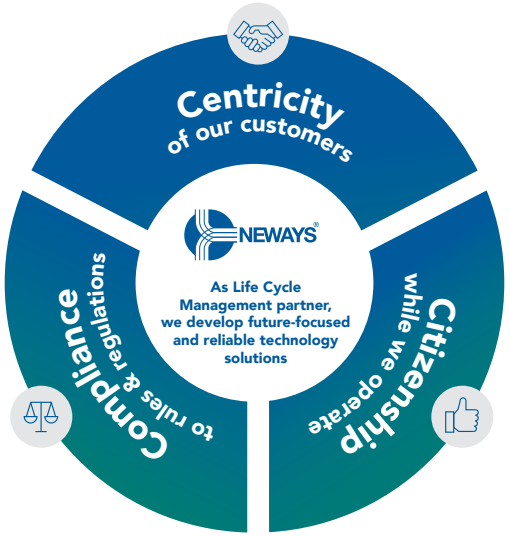
Neways sees responsible business operation as an integral part of its ambition to create and maintain long-term partnerships with its customers. We focus primarily on the aspects that are relevant to the sectors in which we operate and the future of our business. We want to align ourselves as closely as possible with the choices and dilemmas that our customers have to deal with:

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

Policy and results in 2018 by area of priority

A safe working environment and a healthy workforce

Neways attaches the utmost value to safety in the workplace and the health of its employees. Nonetheless, unsafe situations can sometimes occur on the shop floor. The table on page 32 shows the number of incidents and the percentage of sick leave in the Neways Group in 2018. Incidents include both major and minor incidents. Minor incidents involve cuts and grazes; major incidents involve more serious injuries. The criteria for incidents and near-incidents were refined and standardised in 2018. The aim was not only to improve the quality of available data, it was also to enable employees to report incidents and accidents more easily and resolve unsafe situations.



There were 110 minor incidents and 67 near-incidents in 2018.
No major incidents involving injury occurred in 2018.
These figures will serve as a baseline measurement, forming a basis for monitoring progress and making adjustments where needed.

Baseline	2018
Major incidents	0
Minor incidents	110
Near-incidents	67
Sick leave percentage	4.8%

The commitment and education of employees are essential aspects in the prevention and resolution of incidents and incapacity. We strive to raise awareness of safety throughout our organisation by making it easier for our employees to report minor incidents and near-incidents. This focus on what may appear to be minor incidents provides signals to us and helps us to prevent more serious incidents in the future.

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.

Neways also formulated and published a detailed code of conduct in 2018 that applies to all the Group's employees. Among other things, the code establishes our commitment to respect for human rights and good working conditions around the world, dealing with each other on the basis of respect, integrity and ethical conduct. The code of conduct is available on the corporate website.

Efficient use of energy and water

Neways strives to reduce its use of energy and water in its production activities. Modern standards for energy efficiency are applied for new production facilities and expansions to existing production facilities. In our new production facility at Neunkirchen, we have invested in energy-efficient soldering machinery and LED lighting. There are also many gains still to be realised by making our employees more aware of the various possibilities for reducing use of energy and water.

CO_2 emission is one of the major causes of global warming. The Paris Climate Agreement calls on countries and businesses to limit warming to 2 degrees Celsius, and where possible to restrict warming to 1.5 degrees Celsius. Neways strives to reduce its use of fossil fuels and its ecological footprint. In its daily operations, Neways does this primarily by designing its production methods as efficiently as possible and actively striving to reduce its use of energy. A start was made in 2018 on establishing the percentage of the energy requirements of the Dutch operating companies that is met with green energy. Our ambition is to increase our use of renewable energy in our daily business.

Clean water is becoming a more scarce resource with a growing global population. For Neways, it is clear that its production processes should use as little clean water as possible.

Besides reducing our use of water in our own operations, Neways is helping customers produce more efficiently and use water in a sustainable manner. Our customers in the industrial sector benefit in particular from Neways' products that help them produce with less water or safeguard water quality.

The table on page 33 shows the Group's use of energy and water in absolute terms and in relation to revenue. We are directing our efforts here to achieve a better energy-efficiency ratio, the number of terajoules divided by revenue in millions of euros. Regarding water use, we measure both absolute and relative use, in this case the number of cubic metres divided by revenue in millions of euros. Given the increase in our activities, we do not consider a reduction in our absolute use of energy and water to be realistic. If the rate of increase in our use of energy and water is lower than the increase in revenue, our business operation will be more efficient. All our operating companies are included in these figures.

Baseline	2018
Energy use (TJ)	80.29
Energy-efficiency ratio (TJ/€ mln)	0.158
Water use (m^3)	25.336
Water efficiency ratio (m^3/€ mln)	49.99

Waste and recycling

Neways is reducing its use of raw materials and commodities in two ways: firstly, we improve the efficiency of our production processes, which leads to less waste and use of materials. Secondly, waste is recycled as far as possible. Reducing the use of materials moreover has a positive effect in the form of cost savings for Neways and our customers.

Under Article 19a of EU Directive 2014/95/EU on the publication of non-financial information and information on diversity, Neways is taking various measures to restrict the environmental risks that could arise from its activities. Neways thus 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 leak-proof containers. Neways does not require environmental permits to be able to carry out its business operations.

The table below gives an overview of our waste, divided into chemical and industrial waste, in absolute terms and the percentage of plastics and materials that Neways Group recycles. All our operating companies are included in these figures.

Baseline	2018
Waste (total) x 1,000 kg	936.8
Chemical x 1,000 kg	35.3
Industrial x 1,000 kg	764.8
Recycling (total) x 1,000 kg	598.6
Plastic (%) of waste (total)	12.2
Materials (%) of waste (total)	51.7

Local procurement of components

To have a real impact, cooperation with all the parties in the chain is needed. Besides using and implementing sustainable production methods, we also want to make an active contribution to improving sustainability in the supply chain. We want to be a knowledge partner for our customers with respect to sustainability in the supply chain.

We fulfil this role in our capacity as chain coordinator. For this we work closely in a tripartite relationship with our customers and our suppliers. In this way we can make our customers more aware of possibilities for improving sustainability in the chain. Neways wants to advise customers more actively with respect to sustainable components and suppliers. With respect to suppliers, Neways wants at the same time to play a coordinating and responsible role to promote sustainable production methods and compliance with applicable legislation and regulation regarding working conditions and the environment.

In addition, Neways strives to structure its supply chains as efficiently as possible. An important aspect here is reducing the distances travelled for the supply of components and the associated ecological impact. Neways therefore strives to work with local suppliers as far as possible. 60.3% of all materials and components was procured locally in 2018. This concerns the percentage of the procurement budget spent with suppliers located within a radius of 600 km of a Neways operating company. This percentage is an average for all operating companies.

Baseline	2018
Local procurement (%)	60.3

Fair supply chain and awareness in choice of materials

Neways contractually establishes with its suppliers that they observe all applicable legislation and regulation with respect to matters including working conditions, bribery and the environment. Our code of conduct also states that Neways will not do business with organisations that violate fundamental human rights and behave irresponsibly with respect to the environment. Specific attention is paid to the origin of materials and components that are procured and used by Neways. A number of these materials consist partly of minerals.

Three specific types of minerals, also referred to as 3TG, may originate in conflict areas such as the Democratic Republic of Congo or one of its neighbouring states. The income from sales of these conflict minerals is used for financing armed conflict, human rights violations, environmental degradation and forced labour.

Neways operates in conformity with EU Regulation 2017/812 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), the US Dodd-Frank Act and the Responsible Business Alliance.

We also support our customers by identifying suppliers that could be using conflict minerals. We report the findings of the mandatory due diligence to our customers using the Conflict Minerals Reporting Template (CMRT). We are thus aiming to achieve transparency for a greater proportion of our supply chain and suppliers each year. In 2018, we established that 90% of our suppliers do not sell components in which conflict minerals have been used, while in 2017 this percentage was 75%. We want to clearly establish that all our suppliers make no use of conflict minerals as soon as possible.

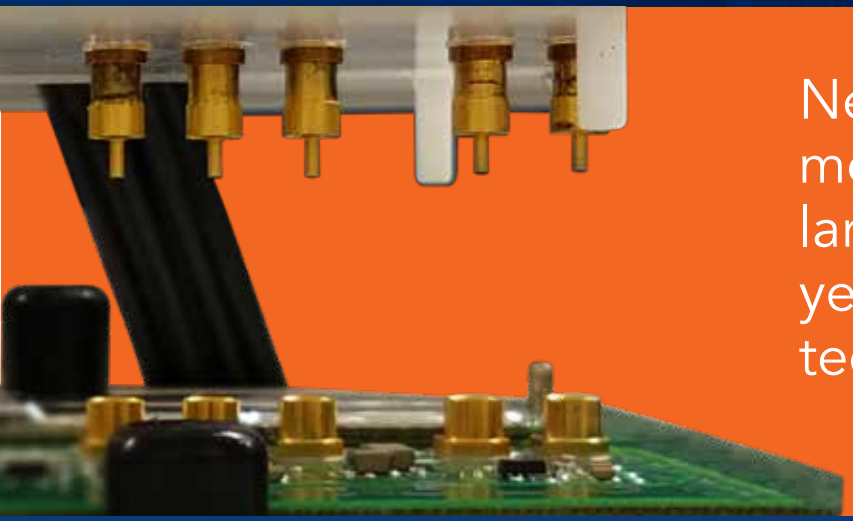
If we establish that a supplier is using conflict minerals, the first step for Neways is to initiate a dialogue with the supplier and request it to use other materials. If this fails to have an effect, Neways will look for alternative solutions with its customers and suppliers. Neways generally encourages its employees and other stakeholders to be aware of conflict minerals and the need for avoiding their use.

Interest of young people in technology

As a high-tech company, Neways wants to contribute to public interest in science and technology and encourage school children and students to choose science subjects. What are known as the STEM subjects (Science, Technology, Engineering, Mathematics) are not only crucial for Neways, they are also crucial for the Dutch economy in the 21st century. Neways sees this encouragement as a form of social responsibility with respect to the local communities in which it operates. At the same time, it helps us attract new technically trained workers. Since 2013, Neways has been a partner in the Solar Team Eindhoven, a team of students at the Technical University of Eindhoven that designs cars fully powered by solar energy. Another new initiative concerns the Young Solar Challenge of high school students in Leeuwarden. Colleagues at our facility in Leeuwarden have helped the students to construct a boat that is powered by solar energy. Neways employees helped the student team in the realisation of various electronic solutions in 2018. Our facility at Neunkirchen (Germany) has entered into a joint venture with the HTW Saarbrücken, a university of applied sciences for science and technology. 37 students at this university attended a summer internship at our facility in Neunkirchen in 2018.

Intelligent Semi Automated production

INDUSTRIES AUTOMOTIVE MEDICAL DEFENCE INDUSTRIAL SEMICONDUCTOR OTHER



Neways produces very small series (tens of units), medium-sized series (ten thousand units per year) and large volumes of hundreds of thousands of units per year. Different volumes require different production techniques and different skills from our employees

For medium-sized volumes, Neways can offer semi-automated solutions, as shown in the picture on this page. This production line is fitted with intelligent poka yoke tools, as a result of which the operator cannot miss any steps.

By making the best use of the various waiting times in the line, such as testing times for example, a single employee can efficiently operate a complete production line and thereby produce a high-quality product at the lowest possible cost.

The Supervisory Board, the Board of Directors and management team

Situation at 31 December 2018

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-TTO
	Chairman, Stichting PhotonDelta

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

BOARD OF DIRECTORS

Huub van der Vrande (1955) (m)	CEO
	Positions outside the organisation: None
Paul de Koning (1963) (m)	CFO
	Positions outside the organisation: Member of the Supervisory Board of Stichting Elkerliek hospital
Adrie van Bragt (1965) (m)	COO
	Positions outside the organisation: None

MEMBERS OF THE NEWAYS MANAGEMENT TEAM

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

Sales

"As a Senior Account Manager, I regularly visit customers. If you are close to someone, you have a much better understanding of what they have to deal with. You have to be genuinely interested and curious, and ask penetrating questions to understand what the customer needs. If you do this from the start – early involvement – you can build a long-term partnership. We work on product introductions together with the customer. If they see a project as successful, so do we.

By working in multi-disciplinary customer teams, you can properly analyse a customer and their market challenge. We do this now in a much more conscious and structured way than a couple of years ago. Establishing the Neways DNA and the improvement programmes have played a major role in this. We are in a better position to estimate whether a customer is suitable for Neways. Of course we want to be of service, but the important thing is that we can achieve something together. We are 100% motivated for customers with whom we have forged a partnership."

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INGRID HOOGSTINS
SENIOR ACCOUNT MANAGER
NEWAYS LEEUWARDEN

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 N.V.) 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 Dutch 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) of 20 March 2009 ('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 systems for the Group's financial reporting process, described in 'Risk Management' (page 45);
- the functioning of the General Meeting of Shareholders, its primary powers, the rights of the shareholders and how these can be exercised (page 41 'General Meeting of Shareholders');
- the composition and performance of the Board of Directors (page 40 'Board of Directors');
- the composition and the performance of the Supervisory Board (page 41 '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 42 'Powers');
- the rules for amending the company's articles of association (page 42 'Powers');
- the powers of the Board of Directors relating to the possibility of issuing or repurchasing shares (page 42 'Powers');
- related-party transactions (page 94 '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 2018. We comply with the principles and provisions as formulated in the updated Code where possible and relevant. The following is stated with regard to three specific best practice provisions in the Code:

Best practice provision 2.1.5 and 2.1.6

In the selection of candidate members of the Board of Directors and the Supervisory Board, Neways strives to achieve a diverse composition in terms of gender, specific knowledge, nationality, age and ethnic background, technical and other experience and competences. 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. The diversity policy is elaborated further in the Regulations for the Supervisory Board.

Best practice 2.7.4

No transactions were conducted during the 2018 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).
- No specific committees have been formed within the Supervisory Board (best practice 2.3.2). The duties of the Audit Committee are performed by the full Supervisory Board.
- 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 has decided that such meetings are preferable to a webcast (best practice 4.2.3). The presentations given by the Board of Directors are however made available on the corporate website.

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 integrity and an open, honest culture. Such a culture reduces the likelihood of abuses and irregularities. Remaining alert to indications remains important however. Neways has introduced a whistleblower policy 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. The whistleblower policy is available on the corporate website.

The 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.

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 of the Board of Directors, 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 current 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 2018 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 2018 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 2018.

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 item on the agenda. Such requests will be granted if they are made in writing and at least 60 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 items to be discussed, 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 11 April 2019 have been placed on the Neways corporate website.

After sales

"As a Cost Engineer, I keep the costs for our customers as low as possible. This is about the finding the best balance between price and quality throughout the lifecycle. I work in the sales team, but I have a technical background. Lifecycle management does not begin after a product is sold. When you make a quotation, you actually make technical choices that will have consequences later.

We are the link between our customers and our suppliers. We have in-depth knowledge of electronic components, manufacturers and suppliers. We know what their plans and priorities are for the next five to ten years. This knowledge means we can add value for our customers. We can already introduce improvements during the customer's design phase if we think that other components would suit their plans better, taking account of future availability. For an existing product, we recommend customers to carry out a technical upgrade if this is advisable, for instance if our proposal better reflects the available components. The essence is to be proactive and to offer a full-service solution to the customer."

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ARJEN HALEWIJN
COST ENGINEER
NEWAYS TECHNOLOGIES

Market and commercial risks	
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 lifecycle 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	
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	
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 beginning of 2022
Receivables	• Monitor and manage inventories • Credit insurance
Inventories	• Monitor and manage inventories • Introduction of system for unique article coding

Risk management

Neways is an internationally operating listed company that is focused on long-term value creation. Business operation involves market and business-specific risks that Neways mitigates in various ways.

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

Risk management mechanism

We employ internal risk management and control systems to monitor the risks that are relevant for the organisation at a strategic, tactical and operational level. We redesigned our management and control systems on the basis of COSO-ERM[1] in 2018. 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 new 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, and regularly discusses the operation of this system with 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 audit function is performed by the Corporate Head of Business Improvement and Internal Control, who reports directly to the CFO. At the request of the Supervisory Board, the officer responsible for the internal audit function may also report directly to the Supervisory Board. In the context of risk management, the internal auditor is responsible for more than simply supervising compliance with laws and regulations, they also assess and initiate improvements in business processes.

The internal risk management and control systems will never provide full assurance that objectives with respect to risk management will be achieved, nor will it fully prevent all material misstatements, losses, fraud or 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, the statement of cash flow and the balance sheet. These consolidated monthly reports are also 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.

The internal auditor initiated a new risk assessment in 2018, in order to reprioritise and analyse the business risks. Detailed action plans will then be formulated for the key risks. The assessment will be completed in 2019, after which the action plans will be rolled out.

Market and commercial risks

Volatility of customer demand

Customers and end customers are exposed to macroeconomic developments. The manufacturing industry consequently experiences cyclical economic fluctuations that have an impact on 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 various market sectors and its activities are evenly spread across its chosen market sectors. This mitigates our exposure to sharp changes in demand, such as those that occur in the semiconductor sector. This diversification is reflected in a more stable development of orders, revenue and results compared with several years ago. 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 the medical sector, and by better

[1] *COSO Enterprise Risk Management is a commonly used framework for the evaluation and design of risk management.*

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 will not be able to respond sufficiently to this shift and may lose important customers and partnerships as a result.

Neways anticipates shifts in customer requirements by investing in the technology of the future. We thereby increase the likelihood that we will continue to be able to meet customer demand and keep up with technological developments. In addition, we invest in knowing our customers so that we understand which technological developments will be relevant to them, and we create the necessary scale and organisational capacity.

Scarcity of technically trained talent
Scarcity of technical personnel in the labour market may adversely affect the execution of the strategy and production and development capacity. This scarcity currently applies in particular to specialists such as technical engineers and system architects.

Neways actively engages in employer branding and positions itself as an attractive employer that offers a personalised work environment for talented people with a technical background, in which young talent is offered international prospects and possibilities for career advancement in the high-tech sector. In addition, terms of employment and employee benefits are benchmarked on a periodic basis.

Growing regulatory pressures
The legislation and regulation governing quality and safety, sustainability and transparency are becoming more stringent. Environmental requirements are becoming stricter. Embedding knowledge in this area throughout the organisation and an effective compliance function are thus essential. Failure to comply may lead to reputational damage, fines and loss of customers.
Neways complies with all relevant product and environmental requirements (REACH, RoHS, ISO 14001 and legislation and regulation on exports and conflict minerals) and is continually alert to identify and implement points for improvement. We are looking at the implications of new European regulation on conflict minerals for our business operation.
This new legislation takes effect in 2021 and prohibits the export of conflict minerals to EU Member States. Together with our first and second-tier suppliers, Neways is working to improve the traceability and sustainability 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 that is free of conflict minerals.

Competition on price
The EMS market is traditionally a production industry that frequently experiences competition on price. Globalisation and technological progress are leading to continual price pressure on electronic applications. Margin pressure at Neways could therefore increase.

By carefully choosing customers for whom Neways can add value as a long-term partner in technology and lifecycle management, Neways competes not only on price, but mainly on reliability and quality. By expressly committing to a long-term partnership with customers and striving to achieve an optimal total cost of ownership, Neways is less exposed to short-term price pressure. Our ability to be involved in new product introductions at an early stage and develop and innovate with our customers is an essential part of this positioning.

Operational risks

Chain complexity
The EMS market is characterised by a complex supply chain and that complexity is continually increasing due to growing customer demand for box-build systems.
The materials required for these systems is often significantly more complex than the procurement of electronic components and part-systems. As a co-developer for our customers, Neways is taking an increasingly prominent role in the chain and as a logistics partner for our customers. Already in the development phase, choices have to be made with respect to the best materials and components from a future-oriented perspective and as a chain coordinator and development partner Neways adds value. Lack of transparency in the chain can lead to quality and supply problems that can disrupt schedules and production processes.

Neways continually monitors the risks of late deliveries in each product group and from each supplier. All activities in the procurement and production process are only initiated once a customer has placed an order or a contract has been signed. In case of a cancellation the costs incurred, such as the inventory costs of procured components, are spread across the logistics chain.
This approach means that the financial risks for Neways are minimal.

Scarcity of components
The components that Neways uses in its products are becoming more scarce, as a result of the growing demand for electronics. Delivery times for certain components are getting longer, while other components are no longer obtainable. The lack of these components can lead to deadlines not being met and that Neways cannot meet customer demand.

To mitigate the risk arising from the scarcity of certain components, Neways is working on a strategic chain structure. This features long-term partnerships with tier-one suppliers in a mutually interdependent relationship that features intensive and regular dialogue. This enables us to have a better understanding of the future requirements of our customers for components and the available capacity of our suppliers. This is essential for timely prediction of production capacity and identifying issues at an early stage.

We also use a specific approach for each article category: for generic electronic components, Neways is able to use its technological and logistical expertise to offer alternative solutions and for customer-specific parts there are several potential tier-one suppliers present in the chain.

Failures in business 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 disruption of operations, the general operation of the business and the internal and external reporting, as a result of which Neways may not be able to comply with its obligations to its stakeholders.

Neways has internal and external back-up systems to mitigate the risk of a failing production line or ICT system as far as possible. In addition, continual improvements are made to enhance the security and stability of our ICT systems and the IP data of our customers. These improvements are made on the basis of the Group-wide risk analyses carried out by Neways.

Safety in the working environment
Emergencies and other unforeseen circumstances in production facilities can not only threaten production continuity, they can also pose a risk to the safety of individual employees.

Neways invests continually in the safety of its production facilities by means of preventive controls in work procedures and safety protocols to prevent emergencies and accidents on the shop floor. Our facilities are regularly inspected for safety aspects and working conditions.

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. This also gives Neways opportunities to use the favourable terms offered by suppliers for shorter payment terms. The Group's facility was increased and extended until the beginning of 2022 at the beginning of 2019.
This facility offers sufficient financial stability, and means that liquidity risk is limited.

Non-payment
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.

Free 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.
Free inventories are monitored on a monthly basis and reported by the management of the operating company so that central management is better positioned to reduce the level of free 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 2018. 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.

Board of Directors' statement of responsibilities on the financial report

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

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

The 2018 financial statements give a true and fair view of the assets, liabilities and financial position at 31 December 2018 of Neways Electronics International N.V. and the Group companies included in the consolidation, and of the results for the year then ended;

The 2018 annual report gives a true and fair view of the position at 31 December 2018 of Neways Electronics International N.V. and its affiliated Group companies included in the consolidation and of the developments during the year then ended as presented in the consolidated financial statements, and describes the material risks facing the company.

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

Shares in Neways

Neways shares 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 companies. The companies making up the Tech40 Index are selected every year. NIBC Markets N.V. acted as liquidity provider in 2018 and has been appointed again in 2019.

Neways share capital

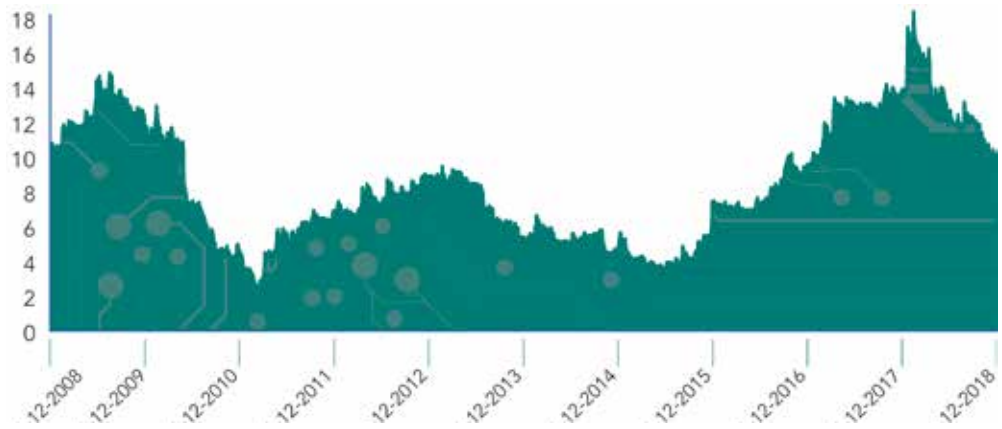
The share capital of Neways consists of ordinary shares with a nominal value of € 0.50 per share. At year-end 2018, the share capital in issue consisted of 11,957,624 shares. During the year 2018, exercises of employee options and conversion of convertible bonds into shares increased the share capital by 476,323 shares.

	2018	2017
At year-end	11,957,624	11,481,301
Weighted average	11,854,170	11,473,678

Movements in share price and ratios

	2018	2017
Highest price	€ 18.60 (20 February)	€ 14.21 (1 November)
Lowest price	€ 9.88 (18 December)	€ 9.20 (2 January)
Closing price	€ 10.10	€ 13.65
Net profit per share	€ 1.20	€ 0.86
Dividend	€ 0.48	€ 0.35
Price-earnings ratio at year-end	8.4	15.9
Market capitalisation at year-end	€ 120,772,002	€ 156,719,759

Movements in share price (in €)



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 Dutch Authority for the Financial Markets (AFM). At year-end 2018, the following shareholders were known to hold interests of at least 3%.

Shareholder	%	Date of last disclosure
VDL Beleggingen B.V.	27.9%	17-12-2010
Stg. Administratiekantoor Tymen	18.9%	08-06-2009
Teslin Participaties Coöperatief U.A.	8.8%	28-11-2017
Menor Investments B.V.	5.4%	09-01-2009
Add Value Fund N.V.	5.3%	06-07-2018
OtterBrabant Beheer B.V.	5.2%	01-11-2006

Most of the shares issued are held by Dutch institutional investors, family offices and private investors.

At 31 December 2018, members of the Board of Directors held 0.1% of the total outstanding Neways shares.

Dividend policy

Neways targets a dividend distribution of 40% of the net profit. Distribution of dividend is subject to various conditions, including that solvency (guaranteed capital adjusted for deferred tax assets and intangible non-current assets/total equity) must be at least 35%.

Based on the profit realised in 2018 of € 1.20 per share, the dividend proposal presented to the General Meeting of Shareholders for the 2018 financial year is € 0.48 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 at 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 certain other key executives. This decision is presented to the General Meeting of Shareholders for approval. The full remuneration policy is available on the corporate website.

The share option scheme has been phased out; options were awarded to members of the Board of Directors and other key executives for the last time 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.
Outstanding options have a term of at least three years. Each option entitles its holder to one ordinary Neways share. Neways' options policy does not state that shares will be repurchased to counteract the dilution effects of exercising options.

Members of the Board of Directors and other officers exercised 17,500 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

22 February 2019	Publication of annual report 2018
11 April 2019	General Meeting of Shareholders 2019
11 April 2019	Publication of interim trade report
15 April 2019	Ex-dividend listing
16 April 2019	Record date
23 April 2019	Dividend made payable
29 August 2019	Publication of half-yearly results
25 September 2019	Open day for shareholders
29 October 2019	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 the Group's 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 its 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 times during the year when the Supervisory Board and the Board of Directors communicate with shareholders.
The most important of these is the Annual General Meeting of Shareholders.
Neways also organises an open day for shareholders each year at one of its operating companies. This gives an opportunity for an informal exchange of views with members of the management team and to become acquainted with the activities of a specific operating company. Further information on Neways shares is available at newayselectronics.com.
You can also contact us at:
e-mail: info@newayselectronics.com
telephone: +31 (0) 40 267 92 05

Contract management

Carmen: "As an Account Manager, I consult with the customer when we are able to develop a product. I guide the process from quotation to production. My understanding of Partner in Driving Excellence is that you provide a full-service solution to the customer by putting yourself in their position, or, even more importantly, seeing things from the perspective of your customer's customer."

Ruud: "A full-service solution is essential, but it must also involve a fair sharing of risk that takes account of Neways' interests as well. A full-service solution has another side, in the sense that the customer also has obligations towards us. We make clear agreements on guarantees for a development project or volume production and how risk-sharing between the parties can be ensured. Of course, these various interests may be conflicting at times. But if you honestly and clearly explain why a particular risk is difficult for us to accept, customers understand that a solution acceptable to both sides can be found in almost all cases."

Carmen: "It is sometimes the case that we cannot accept a project. For instance, if it is not suitable for Neways or if we do not have the necessary capacity or expertise. We are not looking for quick wins. We are in it for the long term, as partners. We want to continue to produce for the customer for at least three years after a product has been developed. The ultimate goal is to fill Neways' factories."

Ruud: "One important task of the legal department is to support colleagues with model contracts and legal courses. Awareness of legal issues has substantially increased at Neways in recent times, but we have to remain focused. To add value as a legal counsel, I am not above the business, I am part of the business, and it is important to think in terms of solutions."

Carmen: "This awareness is becoming all the more important as our projects have become larger and more complex. In development projects, it is not always easy to determine when a customer is satisfied and the project is complete."

Ruud: "For good expectations management, the quotation and the contract must clearly state the legitimate expectations of the customer and of Neways with respect to each other. A long-term relationship will be more likely if you are proactive and transparent from the outset and the customer understands what is important for Neways."

PARTNER IN DRIVING EXCELLENCE

CARMEN EKAS
ACCOUNT MANAGER
NEWAYS TECHNOLOGIES

RUUD MEEREN
CORPORATE HEAD OF LEGAL AFFAIRS
NEWAYS ELECTRONICS INTERNATIONAL

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 2018 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. We also supported and advised the Board of Directors during the year under review.

Composition of the Board of Directors and the Supervisory Board

There were no changes in the composition of the Board of Directors in 2018. There were also no changes in the composition of the Supervisory Board. The current term of Peter van Bommel expires in 2019. He will be proposed for reappointment at the General Meeting of Shareholders.

With reference to the composition of both the Board of Directors and the Supervisory Board, we pay close attention to the expertise and experience of the members. First of all, we look at suitability on the basis of background, specialist (technical) expertise and competences. In our opinion, both the Board of Directors and the Supervisory Board possess an adequate mix of expertise and competences to realise our long-term strategy. 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. 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

Under the leadership of the Board of Directors, Neways made good progress in the implementation of its strategic pillars of customer intimacy, operational excellence and technology leadership in 2018. Various projects are ongoing at Neways to standardise and improve processes. Investment is being made in specialist expertise, for instance with the competence centres. Understanding our customers and the challenges they face is being given higher priority. The working culture is becoming more customer oriented.

This continuing investment and improvement is necessary to unlock the potential of Neways and be an essential strategic partner for OEMs. Neways also has to work closely with its suppliers if it wishes to fulfil its role as chain coordinator and develop and produce relevant innovations for its customers. These changes have been ongoing for some time and are deepened and refined every year. We note that hard work is being done on many fronts to more clearly formulate Neways' proposition. In our discussions with management and employees, we see that this direction is supported and endorsed throughout the Group.

This continuing improvement is showing visible results. Revenue growth significantly accelerated in the past year and the level of activity was high. The projects in which Neways is involved are larger and more complex than they were a few years ago. The proportion of revenue generated from projects in which Neways is involved as a developer has increased. The management of Neways has made good decisions with respect to its customer philosophy and is applying this consistently when entering into partnerships with customers. Neways is thus moving up in the value chain and is becoming a different, higher-value business. This also means that risks have increased. The most important challenge for the Board of Directors and the management teams in connection with more and larger projects continues to be the optimisation of business processes, the simplification and integration of ways of working at all operating companies. This is mainly evident from the structure of the supply chain, that continues to be a complex and intractable process, partly due to the scarcity of certain components in specific areas. Neways can only fulfil its role of essential partner for world-leading OEMs if its business processes are up to standard and it has the necessary expertise in house. We see that Neways is working on this on a daily basis and that the Board of Directors is taking the right actions and initiatives to achieve this.

The Supervisory Board meets formally with the Board of Directors at least five times each year. In 2018 the Supervisory Board held five 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. The Supervisory Board has confirmed the strategy and related actions put forward by the Board of Directors. Various other important topics were also discussed: building long-term partnerships, process improvements 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.

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.
The conclusion was that there has been intensive discussion with the members of the Board of Directors on numerous occasions, but also that the technological expertise of the Supervisory Board could be made more available.

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 item discussed at these meetings.

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 is the Annual General Meeting of Shareholders. Neways also organises an annual open day for shareholders. This year, the open day was held at Neways Electronics in Echt. During the shareholders day, which as usual was well attended, the strategy and the latest results of Neways were discussed. The shareholders were also given a guided tour of the two operating companies in Echt.

Financial statements

The Board of Directors has presented the 2018 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. This report is included in the other information in this annual report (page 109). The Supervisory Board finds that the report of the Board of Directors for 2018 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 2018.

The General Meeting of Shareholders will be advised to adopt the 2018 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.

Result and dividend

Last year the company realised net profit of € 15.1 million before exceptional income and expense. This represents an 51% improvement relative to 2017. Including exceptional income and expense, net profit was € 14.4 million, compared with € 9.9 million in 2017.

The Board of Directors proposes – with the approval of the Supervisory Board – to distribute a dividend of € 0.48 per share for the financial year 2018, to be taken in cash. The dividend payable for 2018 represents 40% of the net profit, in line with the dividend policy.

Valuation

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.

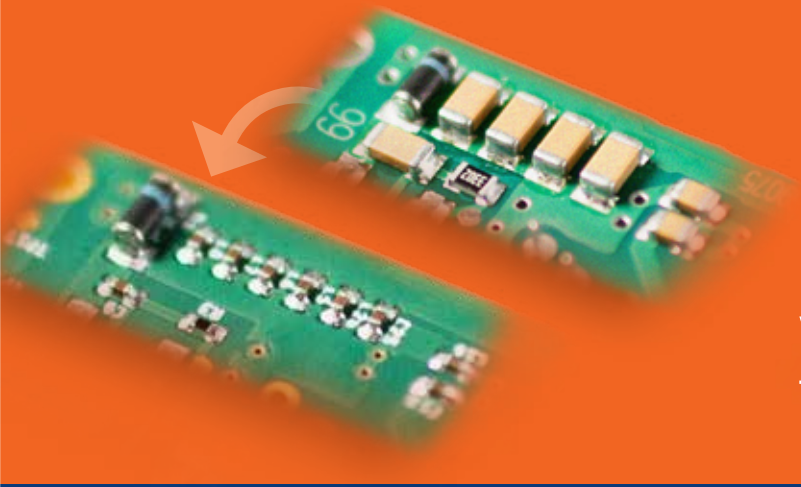
We would like to express our gratitude to the members of the Board of Directors for the pleasant and constructive cooperation. A special word of thanks goes to all employees who are responding pro-actively, with great drive and enthusiasm, to the changes in the organisation and leveraging this new momentum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

Son, 21 February 2019

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

TECHNOLOGY UPGRADE

INDUSTRIES AUTOMOTIVE MEDICAL DEFENCE INDUSTRIAL SEMICONDUCTOR OTHER



Neways' involvement does not end when a product is sold. Support and maintenance of products are crucial aspects of lifecycle management. When a product has been in use for a number of years, we look with the customer to see whether the components still offer an optimal solution

A technology upgrade may be needed to keep the existing functionality future-proof, taking account of the availability of components in the long term. We focus especially on market developments that are relevant for our customers and suppliers. In a business case, we evaluate with the customer the original requirements of the product and updates from the perspective of manufacturability, price and availability of components in the long term.

The next step is the production of a working prototype that we can test for the customer without the need for additional investment. Once the customer has certified the prototype, the upgrade can go into production and last for several more years.

Consolidated statement of financial position

Amounts x € 1,000 at 31 December	Notes	2018	2017*
Fixed assets			
Property, plant and equipment			
Land and buildings	5	14,984	15,611
Plant and equipment	5	21,717	19,324
Assets under construction	5	3,042	722
		39,743	**35,657**
Intangible assets			
Software	6	5,155	5,930
Goodwill	6	2,754	2,754
Customer relationships	6	2,328	3,174
		10,237	**11,858**
Financial assets			
Equity accounted investees	22	5	5
Deferred tax assets	7	3,820	4,352
		3,825	**4,357**
Total fixed assets		**53,805**	**51,872**

Amounts x € 1,000 at 31 December	Notes	2018	2017*
Current assets			
Inventories			
Raw materials and consumables	8	81,368	60,132
Work in progress	8	30,570	25,939
Finished products	8	3,193	11,972
		115,131	**98,043**
Receivables			
Contract assets	2.2	12,966	0
Trade and other receivables	9	62,053	53,286
Corporate income tax		0	158
		75,019	**53,444**
Cash and cash equivalents	10	**1,066**	**1,041**
Total current assets		**191,216**	**152,528**
Total assets		**245,021**	**204,400**

* The Group has applied IFRS 9 and IFRS 15 for the first time with effect from 1 January 2018. As a result of the chosen transition methods, the comparative figures have not been adjusted.

Notes 1 to 25 form an integral part of these consolidated financial statements.

Amounts x € 1,000 at 31 December	Notes	2018	2017*
Equity			
Issued and paid-in capital	11	5,979	5,741
Share premium		44,326	40,312
Retained earnings		50,669	38,385
Translation reserve	11	658	610
Equity attributable to holders of equity instruments in the parent company		**101,632**	**85,048**
Non-current liabilities			
Interest-bearing borrowings	13	0	4,970
Provisions	14	692	917
Pension and jubilee provisions	15	4,959	5,106
Deferred tax liabilities	7	1,417	702
		7,068	**11,695**

Amounts x € 1,000 at 31 December	Notes	2018	2017*
Current liabilities			
Bank overdrafts	13	41,817	32,944
Interest-bearing borrowings	13	1,130	372
Trade and other payables	17	82,833	66,092
Taxes and social security premiums		6,621	5,824
Corporate income tax		2,107	1,175
Provisions	14	1,813	1,250
		136,321	**107,657**
Total equity and liabilities		**245,021**	**204,400**

* The Group has applied IFRS 9 and IFRS 15 for the first time with effect from 1 January 2018. As a result of the chosen transition methods, the comparative figures have not been adjusted.

Notes 1 to 25 form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and comprehensive income

Amounts x € 1,000	Notes	2018	2017
Revenue		506,819	438,685
Movements in work in progress and finished products		–723	740
Raw materials and consumables		–310,906	–268,084
Employee expenses	18	–133,962	–120,549
Depreciation and amortisation	19	–9,198	–9,059
Impairments of trade receivables and contracts	9	–291	–66
Other expenses		–30,697	–27,366
Operating profit		**21,042**	**14,301**
Finance costs	20	–1,967	–1,620
Profit before tax		**19,075**	**12,681**
Tax gain/(expense)	7	–4,644	–2,761
Profit for the period		**14,431**	**9,920**
Other comprehensive income			
To be reclassified to profit or loss in subsequent periods:			
Foreign exchange differences arising from translation of non-Dutch associates		48	–286

Amounts x € 1,000	Notes	2018	2017
Total other comprehensive income to be reclassified to profit or loss in subsequent periods		**48**	**–286**
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement of the defined benefit pension liability	15	–23	61
Related tax	7	7	–18
Total		–16	43
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods:		**–16**	**43**
Other comprehensive income for the period, net of tax		**32**	**–243**
Total comprehensive income for the period, net of tax		**14,463**	**9,677**
Earnings per share (in €):	21		
- Basic earnings per share		1.22	0.86
- Diluted earnings per share		1.18	0.82

Notes 1 to 25 form an integral part of these consolidated financial statements.

Consolidated cash flow statement

Amounts x € 1,000	Notes	2018	2017
Operating activities			
Profit before tax		19,075	12,681
Adjusted for:			
Depreciation of property, plant and equipment	5	7,364	7,377
Amortisation of intangible assets	6	1,834	1,682
Costs of employee options granted	16	69	77
Costs of employee performance shares awarded	16	236	106
Finance costs	20	1,967	1,620
Movements in provisions and pension commitments		–484	749
Movements in working capital*)		–17,275	–17,404
		12,786	**6,888**
Other movements:			
Interest expense paid		–1,918	–1,475
Corporate income tax paid		–3,299	–2,229
Cash flow from operating activities		**7,569**	**3,184**
Investing activities			
Payments to acquire intangible assets	6	–213	–68
Payments to acquire property, plant and equipment	5	–11,870	–6,537
Cash flow from investing activities		**–12,083**	**–6,605**

Amounts x € 1,000	Notes	2018	2017
Financing activities			
Redemptions of interest-bearing borrowings	13	–361	–5,988
Increase/decrease in withdrawals from bank overdrafts	13	8,873	13,054
Dividends paid to holders of ordinary shares	12	–4,184	–3,902
Revenues from exercise of options	16	130	151
Cash flow from financing activities		**4,458**	**3,315**
Movements in cash and cash equivalents		**–56**	**–106**
Net currency exchange difference		81	–20
Cash and cash equivalents at 1 January		1,041	1,167
Cash and cash equivalents at 31 December		**1,066**	**1,041**
* Movements in working capital			
Inventories		–26,417	–11,763
Trade and other receivables		–8,767	–4,816
Trade and other payables		17,112	451
Taxes and social security premiums		797	–1,276
		–17,275	**–17,404**

Notes 1 to 25 form an integral part of these consolidated financial statements.

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 at 1 January 2017		**5,730**	**39,989**	**32,324**	**896**	**78,939**
Profit for the financial year				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 at 31 December 2017		**5,741**	**40,312**	**38,385**	**610**	**85,048**
Adjustment due to initial application of IFRS 15*				2,053		2,053
Adjusted balance at 1 January 2018		**5,741**	**40,312**	**40,438**	**610**	**87,101**

* The Group has applied IFRS 9 and IFRS 15 for the first time with effect from 1 January 2018. As a result of the chosen transition methods, the comparative figures have not been adjusted.

** The share premium includes a sum of € 14,000 as a call option for the convertible subordinated loans.

Notes 1 to 25 form an integral part of these consolidated financial statements.

Amounts x € 1,000	Notes	Issued and paid-in capital	Share premium**	Retained earnings	Translation reserve	Total equity
Profit for the period				14,431		14,431
Other comprehensive income				–16	48	32
Total comprehensive income for the period		0	0	14,415	48	14,463
Exercise of options	16	9	121			130
Issuance of share options			69			69
Award of performance shares			236			236
Issuance of shares		229	3,671			3,900
Write-down of associate			–83			–83
Dividends	12			–4,184		–4,184
Total transactions with holders of shares in the parent company		238	4,014	–4,184	0	68
Balance at 31 December 2018		**5,979**	**44,326**	**50,669**	**658**	**101,632**

Notes to the consolidated financial statements

1. INFORMATION ABOUT THE GROUP

The consolidated financial statements of Neways Electronics International N.V. at 31 December 2018 will be presented for adoption to the General Meeting of Shareholders on 11 April 2019. 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. These financial statements are accordingly prepared on the basis of the going-concern assumption. The consolidated financial statements are presented based on historical cost. The currency in which the consolidated financial statements are denominated is the euro. The figures for 2017 have been reclassified to enable comparison with 2018.

Correction to classification error

In 2018, after the adoption of the 2017 financial statements, the Group identified an error in the 2017 financial statements in relation to the presentation of the various categories of inventory (raw materials and consumables, work in progress and finished products). The errors have been corrected by restatement of each of the relevant items in the financial statements for 2017. This led to the following adjustments: Raw materials and consumables (+ € 1,170,000), Work in progress (+ € 3,066,000), Finished products (- € 4,236,000). The adjustment has no effect on the total inventories, the balance sheet total, the equity and the net profit for 2017.

On 21 February 2019, these consolidated financial statements were approved by the Supervisory Board for publication.

Reporting period

These financial statements relate to the 2018 financial year, which ended on the closing date of 31 December 2018.

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 Dutch Civil Code.
These are the first financial statements in which IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments have been applied. Changes in important principles for financial reporting are explained in Note 2.2.

Consolidation principles

The Group has consistently applied the following principles for financial reporting on all the periods presented in these consolidated financial statements, unless stated otherwise in Note 2.2 'Summary of important accounting policies'. The consolidated financial statements include the financial data of Neways Electronics International N.V. and its subsidiaries at 31 December.
These data are presented in accordance with the full consolidation method, based on uniform accounting policies. 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 time as 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 Note 22.

Company financial statements

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

2.2. Summary of important accounting policies

Changes in important principles for financial reporting

The new standards IFRS 9 and IFRS 15 that are relevant to Neways came into effect on 1 January 2018. The application of IFRS 9 has no material effect on the assets and profit of the Group. The Group has applied IFRS 15 using the cumulative effect method with recognition of the effect of initial application of this standard on the date of initial application (i.e. 1 January 2018). This led to an increase in equity at the opening date of 1 January 2018 of € 2,053,000.

IFRS 15 – Revenue from contracts with customers

IFRS 15 introduces a detailed framework for determining whether, how much and when revenue is recognised. IFRS 15 replaces IAS 18 Revenue, IAS 11 Construction contracts and the related interpretations. Under IFRS 15, revenue is recognised when a customer acquires control of goods or services. The determination of the moment of transfer of control – at a moment or over time – requires the formation of an opinion. The Group has applied IFRS 15 using the cumulative effect method (without practical exemptions), with the effect of initial application of this standard recognised on the date of initial application (i.e. 1 January 2018). The information presented for 2017 has therefore not been adjusted – in other words, it is presented as previously reported under IAS 18, IAS 11 and the related interpretations.

The table below gives a summary of the effect, after deduction of tax, of the transition to IFRS 15 on retained earnings at 1 January 2018.

Effect of transition to IFRS 15

Amounts x € 1,000	Note	Effect of application of IFRS 15 on 1 January 2018
Retained earnings at 31 December 2017		**38,385**
Products with right of return	14	-675
Income from products recognised over time		2,728
Retained earnings at 1 January 2018		**40,438**

IFRS 9 – Financial instruments

IFRS 9 sets requirements for the recognition and measurement of financial assets, financial liabilities and certain contracts for the purchase or sale of non-financial items. This standard replaces IAS 39 Financial instruments: recognition and measurement. As a result of the application of IFRS 9, the Group has implemented the following changes in IAS 1 Presentation of financial statements, which requires that an impairment of financial assets is presented on a separate line in the income statement and comprehensive income. Previously, the Group's approach was to recognise an impairment of trade receivables under Other expenses. As a result, the Group has reclassified impairments in the sum of € 66,000, recognised under IAS 39, from 'Other expenses' to 'Impairment of trade receivables and contract assets' in the income statement and comprehensive income for the year ending on 31 December 2017. Impairments of other financial assets are recognised under 'financial expenses', similar to the presentation under IAS 39, and are not separately presented in the income statement and comprehensive income for reasons of materiality.

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 in this market are serviced as effectively as 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 geographically.

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 homogeneous, 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 defined in IFRS 8.

Of the total revenue of € 506.8 million in 2018 (2017: € 438.7 million), revenue from one customer amounted to € 101.7 million (2017: € 76.1 million) while revenue from another customer came to € 25.0 million (2017: € 24.8 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 is 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 recognised under cash flow from operating activities. The cash flow statement also takes account of the effects of sales and acquisitions of Group companies and associates 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 on initial recognition, 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 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 impairment once a year, or more frequently if events or altered circumstances point toward the possibility that the carrying amount is subject to 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 calculated as the higher of the value in use or the recoverable value net of the selling expenses. If the recoverable value of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment is recognised. 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. Unless otherwise stated, all financial information is in euros rounded to the nearest thousand. Each 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

On initial recognition, transactions in foreign currencies are presented at the foreign exchange rate for the functional currency on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate for the functional currency on the balance sheet date. All differences are applied to profit or loss, except differences on permanently invested loans to non-Dutch associates 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 applied to profit or loss. Non-monetary line items stated at historical cost in foreign currencies are translated at the foreign exchange rates 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 on the date on which the fair value is calculated.

II) Group companies

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 on the 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 the non-Dutch entity in question is taken to the income statement.

Financial instruments

Financial assets

Financial assets are stated at fair value on initial recognition.
The Group's financial assets consist of cash and cash equivalents and of trade and other receivables.
After initial recognition, 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 recognised in 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 prior to 1 January 2018

Every year on the balance sheet date, the Group assesses whether any financial assets or groups of financial assets have been subject to impairment. A financial asset, or group of financial assets, is only subject to impairment if the 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 be reliably estimated. Indications of an impairment include situations in which 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 are subject to 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 is collectively subject to impairment. Assets that are considered individually for impairment and for which an impairment, or further impairment, is recognised are not included in a collective test for impairment. The amount for which an impairment is recognised 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 formation 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 loans, 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 adjusting the provision formed. If a write-down is realised at a later date, the revenue is deducted from the finance costs in the income statement.

Impairments of financial assets after 1 January 2018

Financial instruments and contract assets
The Group forms provisions for expected credit losses on:

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

The Group measures provisions for credit losses at a sum equal to the expected credit losses during the full term of the asset, apart from the following, which are valued at the expected credit losses over the next 12 months:

- debt instruments for which it is established on the reporting date that the credit risk is low; and
- other debt instruments and bank balances for which the credit risk (meaning the risk of default over the expected term of the financial instrument) has not significantly increased since initial recognition.

Provisions for credit losses on trade receivables and contract assets are always carried at an amount equal to the expected credit losses during the full term of the asset.
In the determination of whether the credit risk of a financial asset has increased since initial recognition and the estimation of the expected credit losses, the Group uses reasonable and supporting information that is relevant and available that does not involve disproportionate cost or effort. This includes both quantitative and qualitative information and analysis, based on historical experience of and previously conducted credit assessment by the Group and including future-oriented information.

The Group considers a financial asset to be in default if:

- it is unlikely that the debtor will fully meet its obligations to the Group without recourse by the Group to actions such as the realisation of guarantees (if available);

Measurement of expected credit losses
Expected credit losses are estimated by means of a probability-weighted assessment. Credit losses are measured at the discounted value of all cash shortages (in this case the difference between the cash flows due to the entity under the contract and the cash flows that the Group expects to receive).
Estimated credit losses are discounted at the effective interest rate for the financial asset.

Presentation of the provision for expected credit losses in the balance sheet
Provisions for credit losses for financial assets carried at amortised cost are deducted from the gross carrying amount of the asset.

Write-downs
The gross carrying amount of a financial asset is written down if the Group has no reasonable expectation of being able to fully or partially collect it. For its business customers, the Group makes an individual assessment as to the timing and extent of the write-down, based on whether there is a reasonable prospect of collection. The Group does not expect any significant collection of previous write-downs. Activities may however still be carried out with respect to financial assets written down in order to fulfil the Group's procedures with respect to the collection of amounts in arrears.

Financial liabilities
Financial liabilities are stated at fair value on initial recognition, 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. After initial recognition, financial liabilities are carried at amortised cost, based on the effective interest method.

Derecognition of financial liabilities
Financial liabilities are no longer recognised in 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 a derecognition of the original liability in the balance sheet and the recognition of a new liability. The difference between the carrying amounts in question is recognised in the income statement.

Offset of financial instruments
Financial assets and financial liabilities are only offset against one another and reported at the net amount in 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 carried at cost, net of cumulative depreciation and cumulative impairment.
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 recognised in 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 if events or changes in circumstances indicate that the carrying amount might not be realisable.

Land and buildings are carried at cost, net of cumulative depreciation on buildings and net of cumulative impairment. Depreciation is not applied to land and assets under construction. 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 in 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 derecognition of the asset in the balance sheet (calculated as the difference between the net proceeds on disposal and the carrying amount) are taken to the income statement during the year in which the asset is derecognised. The asset's residual value, economic life and measurement methods are assessed at the end of the financial year, and adjusted if necessary.

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 operating lease on 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 operating leases.

When the lease commences, financial leases are capitalised at the fair value of the leased asset on the commencement date or the discounted value of the minimum lease payments if lower. 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 in 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 the lease period if shorter. Operating lease payments appear on the income statement as operating expenses on a straight-line basis throughout the lease period.

Intangible assets (not including goodwill)

Intangible assets acquired separately are measured at cost on 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 on initial recognition, intangible assets are carried at cost less cumulative amortisation and less any cumulative impairment. Intangible assets with a determinable useful life are amortised over their useful life and tested for impairment if there is any indication that the intangible asset concerned might be subject to impairment. The amortisation period and method for intangible assets with a determinable useful life 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 recognised in profit or loss as follows:

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

Gains or losses stemming from derecognition intangible assets in the balance sheet are calculated as the difference between the net proceeds on disposal and the asset's carrying amount, and are taken to the income statement at the time of derecognition.

Impairments of non-financial assets (not including goodwill)

The Group assesses at the reporting date whether there is any indication that assets are subject to impairment. If any such indication is detected, or if an asset is required to undergo its annual impairment test, 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 costs of sale.
The recoverable amount is calculated for each asset individually, unless the 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 be subject to impairment and its value is lowered to the recoverable amount. The recoverable amount is the higher of the value in use or the fair value less costs to sell.

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. Impairments of continued operations are recognised in the income statement in the expense category that corresponds to the function of the asset in question.
Each year on the reporting date the Group assesses its assets (not including goodwill) to determine whether there is any indication that impairments previously recognised have ceased to exist or have been reduced. If there is such indication, the recoverable amount is estimated. Impairments previously recognised are only reversed if the estimate used to determine the asset's recoverable amount has changed since the most recent impairment. In this case, 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 had been recognised for the asset in previous years. Such reversals are recognised in the income statement.

Inventories

Inventories are measured at the lower of cost and net realisable value.
Cost comprises the following costs:

Raw materials and consumables	- Purchase price on the basis of first-in, first-out
Work in progress and finished products	- Direct costs of materials and labour, plus a proportion of the non-variable production costs based on normal operating capacity, but excluding finance costs

The net realisable 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 in the balance sheet consist of bank balances and cash. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist 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 recognised in 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 deferred income

For contracts in which customers have the option of returning products on the basis of an individual warranty agreement, a provision is formed for advance payments received by the Group where the fulfilment of the obligation to effect repairs lies in the future. Income for the warranty obligation is recognised over the term of the warranty period.

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 the present value of the expected net costs of continuing the contract if lower. Before a provision is recognised, the Group first recognises any impairment of the assets related to the contract.

Provision for claims

A provision for claims is formed if it is likely that the Group will be held liable in legal proceedings. The provision is the best estimate of the sum needed to settle the liability and the legal costs.

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 applied collectively with other legal entities. The affiliated companies are not obliged to make good any deficits in these pension funds, nor are they entitled to any surpluses. As such, these pension schemes qualify as defined contribution schemes in the financial statements.

The Group has defined benefit schemes and early retirement schemes for employees and former 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 recognised in profit or loss in subsequent periods. The Group has no fund investments. The interest balance is calculated by applying the discount rate to the net liability arising from the pension scheme 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 recognised in the income statement.
If a pension scheme or early retirement scheme changes or is reduced, the resulting changes in pension costs for past years of service are recognised in the income statement on the date of the change or reduction.

Jubilee provisions

Employees of the Dutch 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, see Note 15.

Short-term employee remuneration

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

Members of the Board of Directors, as well as certain other officers of the Group, receive remuneration in the form of share-based payments, 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 carried at fair value as at the date of grant.
The fair value is calculated based on the Black & Scholes model (for further information, see Note 16). The schemes applied are a share option scheme and a performance share scheme. The measurement of equity-settled transactions does not take account of 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). These costs are recognised as employee expenses. The cumulative costs recognised for equity-settled transactions on 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 end of that period.

Any equity-settled commitments that are cancelled are regarded as being unconditional on 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 on 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 and performance shares is made visible as an additional dilution of the shares in the calculation of the diluted earnings per share (see also Note 21).

Revenue recognition prior to 1 January 2018

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 on occasion are 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 reliably calculated. 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 are recognised.

Sales of goods

Revenue from the sale of goods is 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 reliably measured, the collection of the payment due 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 these contracts is recognised when the goods are removed from the warehouse by the customer.

Services provided

Revenue recognition is 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 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 recognised when they are foreseeable.

Revenue from services provided represented approximately 4% of the Group's total revenue in the 2018 financial year (2017: approximately 4%).

Revenue recognition after 1 January 2018

Revenue is recognised on the basis of the payment as specified in a contract with a customer. The Group recognised revenue at the time it transfers control of goods or services to the customer.

The types of products listed below give information on the nature and timing of the fulfilment of performance obligations in contracts with customers, including key payment conditions and the associated principles for revenue recognition.

Standard products

Customers acquire the right of disposal with respect to standard products when the goods are delivered and accepted at the customer's premises. This is also the time when revenue is recognised. Invoices are generated at that time and are normally due for payment within 30 to 90 days.

With certain customers, there is an agreement to deliver the goods to a consignment warehouse of the customer. The revenue is recognised when the goods are withdrawn from the customer's consignment warehouse. Invoices are generated at that time and are normally due for payment within 30 to 90 days.

Products made to order

The Group has established that for products made to order, the customer has power of disposal over finished products when the products are produced. This is due to the fact that under these contracts, products are made according to a customer's specifications and when a contract is terminated by the customer, the Group is entitled to payment of the costs incurred up to that point including a reasonable margin.

These non-invoiced amounts are presented as contract assets.

Income and the related costs are recognised over time, in this case before the goods are delivered to the customer. The related margin is realised at the time the production is complete and the product is in inventory as finished products.

Contract assets

Contract assets relate to the entitlement of the Group to payment for completed activities in relation to products made to order that have not been invoiced on the reporting date. Contract assets are reclassified to receivables once the entitlements have become unconditional. This generally is the case when the Group sends an invoice to the customer.

Projects in progress

The Group carries out development, prototyping and engineering projects for customers. These projects have various durations.

Income is recognised over time on the basis of the cost-to-complete method. The related costs are recognised in profit or loss when they are incurred. Advance payments received are recognised under Other payables.

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 on the reporting date in the countries in which the Group generates taxable income. Current tax on profit relating to items included directly in equity is recognised directly in equity rather than in 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 on 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, the timing 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 profit will be available against which the temporary 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 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 on 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 on 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 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 PREPARATION OF THE FINANCIAL STATEMENTS

For the purpose of preparing the Group's financial statements, the management is obliged to form opinions and make estimates and assumptions on 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 policies, 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 based on what is 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 affiliated companies are not obliged to make good any deficits in these 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 lessee

The Group rents property and other operating assets 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 operating lease contracts.

Estimates and assumptions

The principal assumptions concerning the future and other important sources of estimation uncertainty on 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 value of assets and liabilities

Contingent income resulting from business combinations is stated at fair value on 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 on 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 the measurement methods are assessed at the end of the financial year, and adjusted if necessary. No adjustments were made during the financial year.

Impairment of goodwill

At least once every year, the Group ascertains whether its goodwill has been subject to impairment. 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 these cash flows. The carrying amount of the goodwill at 31 December 2018 was € 2.8 million (2017: € 2.8 million). For further information, see Note 6.

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 on 31 December 2018 was € 4.5 million (2017: € 5.3 million). On 31 December 2018, all tax losses in Germany were recognised in the statement of financial position. For further information, see Note 7.

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. On 31 December 2018, the allowance for write-downs of inventory was € 11.1 million (2017: € 10.3 million).

Provision for onerous contracts
The calculation of this provision involves assumptions and estimates concerning the projected costs of continuing contracts until delivery.

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 assumptions with respect to 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 on each reporting date. The net liability at 31 December 2018 was € 5.0 million (2017: € 5.1 million). For further information, see Note 15.

4. STANDARDS AND INTERPRETATIONS NOT YET APPLIED

Of the amended standards and interpretations that are not effective for the 2018 financial year, IFRS 16 will have a material effect on the Group's consolidated financial statements in the period of initial application. The Group has not opted for early application of this new standard in preparing its consolidated financial statements.

IFRS 16 Leases
The new standard IFRS 16 Leases has to be applied by the Group with effect from 1 January 2019. The Group has evaluated the standard IFRS 16 Leases that has not yet been applied and analysed the effect on its consolidated financial statements as described below.
The actual effect of application of IFRS 16 may still change since the new measurement principles to be applied could still change until the date of first publication of the consolidated financial reporting in which the initial application is included. IFRS 16 replaces the existing regulation with respect to leases, including IAS 17 Lease contracts, and as result the distinction between operating leases and financial leases will lapse. The principle of IFRS 16 is that virtually all lease contracts must be recognised in the balance sheet. As a lessee, the Group values its right to use the underlying assets and the obligation to effect the lease payments. The exceptions, which are short-term lease contracts and lease contracts relating to assets with low value, are applied by the Group. The Group will recognise assets and liabilities for the operating lease commitments of its rental contracts for various business premises and other leases. The introduction of IFRS 16 will entail a shift in the income statement from business expenses (other expenses) to depreciation expense and finance costs. Formerly, the operating lease commitments were recognised in the costs on a straight-line basis over the term of the contract. The greatest effect identified is the recognition of leased business premises in the balance sheet.
Based on the information currently available, the Group estimates that the effect on its assets and liabilities in the balance sheet dated 1 January 2019 will amount to approximately € 36 million. The Group further expects a shift in the cash flow statement from the cash flow from operating activities to the cash flow from financing activities of approximately € 4 million. The application of IFRS 16 will have no effect on fulfilment of the covenants set by the credit providers as described in Note 24.

Transition
For the initial application of IFRS 16 on 1 January 2019, the Group proposed to use the modified retrospective approach, whereby the cumulative effect of application of IFRS 16 will be treated as an adjustment to the opening balance on 1 January 2019, with no adjustment to the comparative figures.

Other changes
The following amended standards and interpretations are not expected to have a significant impact on the consolidated financial statements of the Group.
- Annual improvements to IFRS 2015-2017 cycle – various standards
- IFRIC 23 Uncertainty over income tax treatments
- Prepaid functions with negative compensation (amendments to IFRS 9)
- Long-term interests in associates or joint ventures (amendments to IAS 28)
- Plan amendment, curtailment or settlement (amendments to IAS 19)
- Changes to references to conceptual framework in IFRS standards
- IFRS 17 insurance contracts

Since the above-mentioned amended standards and interpretations are not expected to have a material effect on the Group's consolidated financial statements, no further disclosure of the estimated quantitative and/or qualitative impact is provided.

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	Assets under construction	Total
Cost				
Balance at 1 January 2017	**24,203**	**83,486**	**0**	**107,689**
Additions	173	8,018	722	8,913
Disposals	–15	–3,749	0	–3,764
Exchange differences	37	20	0	57
Balance at 31 December 2017	**24,398**	**87,775**	**722**	**112,895**
Additions	198	8,981	2,320	11,499
Disposals	0	–755	0	–755
Exchange differences	0	–8	0	–8
Balance at 31 December 2018	**24,596**	**95,993**	**3,042**	**123,631**

Amounts x € 1,000	Land and buildings	Plant and equipment	Assets under construction	Total
Depreciation and impairments:				
Balance at 1 January 2017	**8,076**	**65,364**	**0**	**73,440**
Depreciation charge for the financial year	709	6,668	0	7,377
Disposals	–15	–3,743	0	–3,758
Exchange differences	17	162	0	179
Balance at 31 December 2017	**8,787**	**68,451**	**0**	**77,238**
Depreciation charge for the financial year	825	6,539	0	7,364
Disposals	0	–714	0	–714
Exchange differences	0	0	0	0
Balance at 31 December 2018	**9,612**	**74,276**	**0**	**83,888**
Carrying amount:				
At 31 December 2018	14,984	21,717	3,042	39,743
At 31 December 2017	15,611	19,324	722	35,657
At 1 January 2017	16,127	18,122	0	34,249

Depreciation is not applied to assets under construction. Property, plant and equipment includes leased plant and equipment representing a carrying amount on 31 December 2017 of € 0.3 million. This leased plant and equipment was fully written off on 31 December 2018. Pledges have been established to credit suppliers with respect to plant and equipment. For further information, see Note 13.

6. INTANGIBLE ASSETS

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

Amounts x € 1,000	Software	Goodwill	Customer relationships	Total
Cost				
Balance at 1 January 2016	**11,785**	**2,798**	**8,386**	**22,969**
Additions	68	0	0	68
Balance at 31 December 2017	**11,853**	**2,798**	**8,386**	**23,037**
Additions	213	0	0	213
Balance at 31 December 2018	**12,066**	**2,798**	**8,386**	**23,250**

Amounts x € 1,000	Software	Goodwill	Customer relationships	Total
Amortisation and impairments				
Balance at 1 January 2017	**5,087**	**44**	**4,366**	**9,497**
Amortisation	836	0	846	1,682
Balance at 31 December 2017	**5,923**	**44**	**5,212**	**11,179**
Amortisation	988	0	846	1,834
Balance at 31 December 2018	**6,911**	**44**	**6,058**	**13,013**
Carrying amount				
At 31 December 2018	5,155	2,754	2,328	10,237
At 31 December 2017	5,930	2,754	3,174	11,858
At 1 January 2017	6,698	2,754	4,020	13,472

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 to 2 years. Customer bases are amortised over periods of 5 to 10 years.

The estimated amortisation of customer relationships for the next four years is as follows:
2019 € 0.7 million
2020 € 0.5 million
2021 € 0.5 million
2022 € 0.3 million

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

The carrying amount of the software at 31 December 2018 includes a sum of € 3.7 million (31 December 2017: € 4.2 million) in costs for the Infor-LN project. Amortisation is applied over 10 years from the date when it was taken into use. At the balance sheet date, it was established that the carrying amount of this software is not subject to impairment.

Impairment testing of goodwill

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

The Group carried out its annual impairment testing on 31 December 2018. The Group's market capitalisation at 31 December 2018 was higher than the carrying amount of the 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% (2017: 13.5%). The cash flows beyond the 5-year period have been extrapolated using a growth rate of 2% (2017: 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 profit
- Discount rates
- Growth rate used for extrapolating cash flows after the budgeted period.

Operating profit

The operating result as a percentage of revenue is 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 operating performance and proposed future investments. The discount rate after tax applied is 11.4% (2017: 11.4%), which is derived from the weighted average cost of capital (WACC).

Growth rate

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

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 result: An increase in the operating result of only 2% per year from 2019 and thereafter will not lead to an impairment.
- Discount rates: A discount rate (after tax) of 15% will not lead to an impairment.

7. TAXES

Amounts x € 1,000		Consolidated balance sheet		Consolidated income statement		Other comprehensive income
	2018	2017	2018	2017	2018	2017
Deferred tax assets						
Available from tax losses	4,544	5,263	–719	–356		
Intangible assets	274	234	40	–97		
Financial assets	160	149	11	20		
Pensions	466	499	–40	–38	7	–18
Other valuation differences	136	472	–336	267		
Total deferred tax assets	**5,580**	**6,617**	**–1,044**	**–204**	**7**	**–18**
Deferred tax liabilities						
Intangible assets	–303	–321	18	–48		
Customer relationships	–698	–952	254	254		
Property, plant and equipment	–601	–774	173	296		
Inventories	–354	–355	1	–90		
Other provisions	–122	–292	170	–34		
Income from products recognised over time	-909	0				
Other valuation differences	–190	–273	83	–44		
Total deferred tax liabilities	**–3,177**	**–2,967**	**699**	**334**	**0**	**0**
Net deferred tax asset	**2,403**	**3,650**	**–345**	**130**	**7**	**–18**
Presented as follows in the balance sheet:						
Deferred tax assets	3,820	4,352				
Deferred tax liabilities	–1,417	–702				
Net deferred tax asset	**2,403**	**3,650**				

The tax charge in the consolidated income statement is composed as follows:

Amounts x € 1,000	2018	2017
Tax on profit for the financial year		
Current tax charge	–5,057	–3,959
Adjustment of tax charge for previous years	39	58
Deferred taxes:		
In connection with the emergence and settlement of timing differences	374	485
Recognition of previously unrecognised tax losses	0	655
Tax on income presented in consolidated income statement	**–4,644**	**–2,761**
Deferred taxes on items recognised in other comprehensive income during the financial year		
Tax gains/losses on defined benefit pension schemes	7	–18
Tax on profit recognised in other comprehensive income	**7**	**–18**

The reconciliation of the tax charge at the rate applicable in the Netherlands with the effective tax charge for the Group is as follows:

Amounts x € 1,000	2018	2017
Profit before tax	**19,075**	**12,681**
Tax at the applicable Dutch rate of 25.0%	–4,760	–3,160
Effect of other tax rates at non-Dutch subsidiaries	–121	–166
Adjustment of tax charge for previous years	40	58
Non-deductible expenses	120	–68
Losses in current financial year for which no deferred tax asset has been recognised	–3	–80
Effect of lower tax rate on deferred tax liabilities	80	0
Recognition of previously unrecognised tax losses	0	655
Tax on profit presented in consolidated income statement	**–4,644**	**–2,761**

The Group recognises deferred tax assets totalling € 4.5 million (31 December 2017: € 5.3 million), which pertain in their entirety to tax-loss carry-forwards representing total available losses of approximately € 15 million (31 December 2017: approximately € 18 million).
The entire asset of € 4.5 million pertains to losses deductible in Germany. The measurement of the deductible losses is based on an estimate of the projected profits to be realised over the coming five years. On 31 December 2018, all tax losses in Germany were recognised in the statement of financial position. The deductibility of the tax losses in Germany, which arise from Neways Deutschland GmbH, is not limited with respect to time.

Further, no deferred tax assets have been recognised for the tax losses in China amounting to € 0.3 million (31 December 2017: € 0.7 million) as it is not yet probable at the present time that future taxable profits will be realised whose benefits the Group can utilise.
Tax losses lapse after 5 years.
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 these 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 24.3% (2017: 26.9%), without taking into account the recognition of previously unrecognised tax losses amounting to € 0.6 million. The Group's areas of activity are the Netherlands, Germany, Slovakia, the Czech Republic, China and the US, where the tax rates for 2018 are as follows: 25% (Netherlands), 30% (Germany), 21% (Slovakia), 19% (Czech Republic), 25% (China) and 27% (US).

8. INVENTORIES

The allowance recognised for write-downs of inventories is € 11.1 million (2017: € 10.3 million). The net movement in the allowance was € 0.8 million (2017: -/- € 0.4 million). The allowance pertains primarily to materials intended for products that are no longer produced and supplied and for which there is no longer demand at the balance sheet date, but are kept in stock and used occasionally. The Group does not possess any inventories that are carried at the lower net realisable value. Credit providers have established pledges on the inventories. For further information, see Note 13.

9. TRADE AND OTHER RECEIVABLES

Amounts x € 1,000	2018	2017
Trade and other receivables	55,147	49,475
Related parties	6,906	3,811
Total	**62,053**	**53,286**

For the conditions that apply to receivables from related parties, see Note 22.

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. Trade receivables are not interest-bearing, and generally have payment terms of 30 to 90 days.

At 31 December 2018, trade receivables with a nominal value of € 0.9 million (2017: € 0.9 million) were subject to impairment, for which an allowance was made. Allowances for receivables are determined individually.

The movements in the allowance for impairment of receivables are as follows (for further information on credit risk, see Note 24):

Amounts x € 1,000	2018	2017
Balance at 1 January	**855**	**892**
Charges for the financial year	346	264
Write-downs	–228	–103
Reversals for unused amounts	–55	–198
Balance at 31 December	**918**	**855**

The analysis of overdue receivables not subject to impairment at 31 December is as follows:

Amounts x € 1,000			Overdue but not subject to impairment				
	Total	Not overdue nor subject to impairment	< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2018	62,053	52,275	6,757	1,563	446	348	664
2017	53,286	46,445	4,376	707	631	345	782

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were freely available during 2017 and 2018.

11. EQUITY

For a summary of the various equity components and the movements in these components between 31 December 2017 and 31 December 2018, please refer to the consolidated statement of changes in equity.

Capital

The authorised capital at 31 December 2018 was € 15,000,000 (31 December 2017: € 15,000,000), divided into 30,000,000 ordinary shares with a nominal value of € 0.50 per share. At 31 December 2018, 11,957,624 ordinary shares were placed and fully paid up (31 December 2017: 11,481,301), bringing the paid-in capital to € 5,978,812 (31 December 2017: € 5,740,651). The movements in the increase in the number of issued and paid-in ordinary shares during the 2017 and 2018 financial years were as follows:

Numbers x 1,000	Notes	Ordinary shares issued and paid in
1 January 2017		**11,459**
Issued in exchange for cash payment upon exercise of share options	16	22
31 December 2017		**11,481**
Issued in exchange for cash payment upon exercise of share options	16	18
Issued due to conversion of convertible subordinated loans	13	459
31 December 2018		**11,958**

Share premium

The sums paid in by shareholders in excess of the nominal share capital are recognised as share premium. This also includes additional capital payments by existing shareholders without the issue of shares or rights to acquire shares in the company.

The share premium includes an amount that has been attributed to the equity component of the convertible subordinated loans that the Group issued in 2014 (see the 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 these 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 reserve. The Board of Directors also proposes that a dividend of € 0.48 per share be distributed for the 2018 financial year. The dividend will be paid in cash.

Amounts x € 1,000	2018	2017
Declared and paid during the year		
Dividend on ordinary shares:		
Final dividend for 2017: € 0.35 (2016: € 0.34)	4,184	3,902
Proposed for the approval of the General Meeting of Shareholders		
Dividend on ordinary shares:		
Final dividend for 2018: € 0.48 (2017: € 0.35)	5,740	4,018

13. OTHER FINANCIAL LIABILITIES

Amounts x € 1,000	Effective interest rate	Maturity date	Outstanding amount	Outstanding amount
			2018	2017
Current				
Financial lease	3.4% – 3.6%	31 Jan. 2019	44	172
Bank overdrafts	Euribor + (1.4% – 2.3%)	On demand	41,817	32,944
Other current borrowings				
Bank loans	4.2%	31 Mar. 2018	0	200
Convertible subordinated loans	4.6%	30 Sep. 2019	1,086	0
Total current interest-bearing borrowings			**42,947**	**33,316**
Long-term				
Financial lease	3.4% - 3.6%	31 Jan. 2019	0	33
Other long-term borrowings				
Convertible subordinated loans	4.6%	30 Sep. 2019	0	4,937
Total long-term interest-bearing borrowings			**0**	**4,970**

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 at 31 December 2018 (overdraft and committed facilities) total € 52.5 million (interest rate: Euribor + 1.4%-2.3%, depending on the senior net debt/ EBITDA ratio). At the balance sheet date, € 42.1 million of the credit facility was in use for overdrafts and bank guarantees (31 December 2017: € 33.2 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 of the Dutch and German group companies. The total value of the pledge at 31 December 2018 was approximately € 86 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 consider it necessary that the guaranteed capital (adjusted for the net deferred tax assets and intangible assets) should amount to at least € 55 million and that EBITDA should not be less than € 10 million at 31 December 2018. Further details of the bank covenants with financial institutions are provided in Note 24.

Bank loans (4.2%)

This concerns a bank loan for which the final repayment was made on 31 March 2018.

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. Any subordinated loans not converted are repayable immediately. 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. A sum of € 3.9 million was converted into shares in 2018.

Fair value

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 2017 and 2018 financial years, the Group did not use any financial instruments that are measured at fair value.

For recurring assets and liabilities recognised 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 provisions in 2018 were as follows:

Amounts x € 1,000	Warranty provision	Deferred income	Onerous contracts	Claims provision	Total
Balance at 1 January 2018	**1,146**	**0**	**871**	**150**	**2,167**
IFRS 15 adjustment	–1,146	1,821	0	0	675
Adjusted balance at 1 January 2018	0	1,821	871	150	2,842
Arising during the year	0	670	898	1,000	2,568
Utilised	0	–691	–264	0	–955
Released	0	–1,800	0	–150	–1,950
Balance at 31 December 2018	**0**	**0**	**1,505**	**1,000**	**2,505**
Current	0	0	813	1,000	1,813
Long-term	0	0	692	0	692

Warranty provision

The provision for warranties covers repairs for products that are returned. The estimated amount and duration of the provision are based on the warranty dates for the years 2011 to 2017. Application of IFRS 15 has led to the release of this provision on 1 January 2018.

Deferred income

For contracts in which customers have the option of returning products on the basis of an individual warranty agreement, as a result of application of IFRS 15 in the financial year a provision is held for advance payments received by the Group where the fulfilment of the obligation to effect repairs lies in the future. Income for the warranty obligation is recognised over the term of the warranty period. These contracts were terminated during the financial year, and the prepayments included in this provision amounting to € 1.8 million are accordingly recognised as proceeds of sales.

Onerous contracts

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

Claims provision

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

15. PENSIONS, EARLY RETIREMENT AND JUBILEES

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 placed with two industry pension funds. These collective schemes based on what is 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 companies are not obliged to make good any deficits in these 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 2018, the coverage ratio of *Bedrijfstakpensioenfonds Metalektro* was 97.6% (2017: 101.6%), while that of *Pensioenfonds Metaal en Techniek* was 99.4% (2017: 102.1%). 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 Company 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 (Pensions-versicherungsverein). If the company goes into bankruptcy, the pension commitments will be assumed by this emergency fund. The pension commitments are calculated and

accounted for in accordance with IAS 19. The pension scheme is exposed to interest-rate risk 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 payments and contributions for early retirement are recognised 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 provision		Early retirement provision		Jubilee provision		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Balance at 1 January	**4,146**	**4,347**	**0**	**69**	**960**	**906**	**5,106**	**5,322**
Expenses allocated to the financial year	27	27	27	0	64	159	118	186
Interest expense	60	63	0	0	0	0	60	63
Benefits paid	–186	–172	0	–69	–123	–105	–309	–346
Employer contributions	–39	–58	0	0	0	0	–39	–58
Total	**–138**	**–140**	**27**	**–69**	**–59**	**54**	**–170**	**–155**
Revaluation gains/ losses recognised in other comprehensive income:								
Adjustments stemming from changes to financial assumptions	–56	–8	0	0	0	0	–56	–8
Experience adjustments	2	–53	0	0	0	0	2	–53
Demographic adjustments	77	0	0	0	0	0	77	0
Total	**23**	**–61**	**0**	**0**	**0**	**0**	**23**	**–61**
Balance at 31 December	**4,031**	**4,146**	**27**	**0**	**901**	**960**	**4,959**	**5,106**

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

Amounts x € 1,000	Pension provision		Early retirement provision		Jubilee provision		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Expenses taken to the income statement:								
Expenses allocated to the financial year	27	27	27	0	64	159	118	186
Interest expense	60	63	0	0	0	0	60	63
Subtotal in the income statement	**87**	**90**	**27**	**0**	**64**	**159**	**178**	**249**
Revaluation gains/ losses recognised in other comprehensive income:								
Adjustments stemming from changes to financial assumptions	–56	–8	0	0	0	0	–56	–8
Experience adjustments	2	–53	0	0	0	0	2	–53
Demographic adjustments	77	0	0	0	0	0	77	0
Total pension and jubilee charges	**110**	**29**	**27**	**0**	**64**	**159**	**201**	**188**

The Group expects to contribute € 39,000 to the defined benefit schemes in 2019 (2018: € 39,000). The average duration of the commitment under the defined benefit schemes at 31 December 2018 was 10.9 years (2017: 11.4 years). The adjustments deriving from changes to financial assumptions were due to an increase of the discount rate of 0.1%.
The demographic adjustments were due to a reduction in the remaining life expectancy of retired participants.

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

	2018	2017
Discount rate	1.6%	1.5%
Future wage increases	0.0%	0.0%
Future pension increases	1.75%	1.75%
Remaining life expectancy of retired participants (years)	10.9	11.4

Quantitative sensitivity analysis of the important assumptions used in the actuarial calculations for the schemes for the German employees at 31 December 2018:

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 jaar increase	1 jaar decrease
Impact on the liability	–253	274	0	0	218	–204	260	–253

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

	2018	2017
Discount rate	1.6%	1.5%
Departure rate	41%	43%

Quantitative sensitivity analysis of the important assumptions used in the actuarial calculations for the schemes for the Dutch employees at 31 December 2018:

Amounts x € 1,000	Discount rate		Departure rate	
Sensitivity	0.5% increase	0.5% decrease	5% increase	5% decrease
Impact on the liability	–34	36	–75	74

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 2018 cost for the pension schemes presented as defined contribution schemes for the employees in the Netherlands was € 4,029,000 (2017: € 3,942,000). The payments for 2019 are expected to be approximately the same.

16. SHARE-BASED PAYMENT TRANSACTIONS

Until 2017, the Neways Group has had 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 provided for grants of non-transferable options to acquire 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 may only be exercised by converting them into shares. If an option holder leaves the Group, their option rights lapse.

17,500 options were exercised during the financial year. The fair value of the options granted prior to 31 December 2017 was € 249,492. The weighted average fair value per option is € 1.30. A total of € 69,493 is recognised as an expense in the income statement (2017: € 48,021). The average market price of Neways shares in 2018 was € 13.22 (2017: € 12.36).

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

Optiehouders	Balance as at 31-12-2017	Lapsed 2018	Exercised 2018[1]	Balance as at 31-12-2018	Exercise price (in €)	Maturity
H.W.T. van der Vrande	125,000			125,000[2]	6.00	12/2019
	15,000		–15,000	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
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	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	10,000		–2,500	7,500	9.79	04/2020
	22,500			22,500	7.10	04/2021
	30,000	–2,500		27,500	11.71	04/2022
Total	**322,500**	**–2,500**	**–17,500**	**302,500**		

1) The weighted average price on the exercise dates of these options was € 15.84.
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 in 2017.

	2017
Dividend yield (%)	3.68
Expected price sensitivity of the share (%)	28.47
Risk-free interest rate (%)	–0.78
Expected life of the options (in years)	3.50
Expected exercise behaviour of the options (%)	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. For the granting to each member of the Board of Directors and the key executives, see Note 22.

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 vesting, 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 29,078 performance shares (based on 100% target) were awarded during the financial year (2017: 37,241). The fair value of the performance shares granted during the financial year was € 399,770 (2017: € 447,782). This fair value does not include 745 shares that were vested and lapsed in the financial year. The fair value per performance share was € 14.11 (2017: € 12.02). A total of € 235,809 (2017: € 105,726) is recognised as an expense in the income statement.

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

Amounts x € 1,000	2018	2017
Balance at 1 January	**36,170**	0
Vested during the year	29,078	37,241
Lapsed during the year	–1,816	–1,071
Balance at 31 December	**63,432**	**36,170**

The table below shows the assumptions used in calculating the fair value of the performance shares granted during the financial year.

	2018	2017
Dividend yield (%)	3.13	3.61
Expected price sensitivity of the share (%)	24.31	28.47
Risk-free interest rate (%)	–0.38	–0.78
Expected life of the performance shares (in years)	3.00	3.00
Expected to vest (%)	100.00	100.00

The calculation of the fair value of the options at the date of grant is based on 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	2018	2017
Trade payables	64,684	50,151
Other payables	16,975	14,952
Interest payable	82	78
Related parties	1,092	911
Total	**82,833**	**66,092**

This item includes € 1,036,000 (31 December 2017: € 58,000) in long-term obligations.

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, see Note 22.
- For an explanation of the credit risk policy adopted by the Group, see Note 24.

18. EMPLOYEE EXPENSES

Amounts x € 1,000	Note	2018	2017
Wages and salaries		114,238	102,011
Pension charges		4,225	4,055
Other social expenses		15,194	14,301
Costs of share option and performance share schemes	16	305	182
Total employee expenses		**133,962**	**120,549**

The Group had an average of 2,943 employees during 2018 (2017: 2,750). This number also includes temporary workers. In total, there were on average 2,511 employees employed at Neways (2017: 2,358). Of the total workforce, an average of 1,823 employees including temporary workers worked for non-Dutch subsidiaries (2017: 1,727). The breakdown by groups was as follows:

Average numbers in FTEs	2018	2017
General administration	412	383
Engineering and development	439	434
Logistics	218	232
Production	1,666	1,514
Warehouse	208	187
Total	**2,943**	**2,750**

19. DEPRECIATION AND AMORTISATION

Amounts x € 1,000	2018	2017
Depreciation of property, plant and equipment	7,364	7,377
Amortisation of intangible assets	1,834	1,682
Total depreciation and amortisation	**9,198**	**9,059**

20. FINANCE COSTS

Amounts x € 1,000	2018	2017
Interest on loans and bank overdrafts	1,602	1,329
Net foreign exchange differences	0	120
Other	365	171
Total finance costs	**1,967**	**1,620**

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.

At 31 December 2018, the diluted earnings per share amounted to € 1.18 (2017: € 0.82). 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	2018	2017
Net income accruing to shareholders of ordinary shares for purposes of calculating the diluted earnings per share	**14,431**	**9,920**
Interest expense on convertible subordinated loans	96	170
Net income accruing to shareholders of ordinary shares for purposes, adjusted for dilution effect	**14,527**	**10,090**

Numbers x 1,000	2018	2017
Weighted average number of ordinary shares	11,854	11,474
Dilution effect:		
Share options	186	181
Performance shares	58	26
Conversion value of subordinated loans	229	588
Adjusted weighted average number of ordinary shares for purposes of calculating the diluted earnings per share	**12,327**	**12,269**

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 (%) 2018	2017
Neways B.V.	Son, the Netherlands	100	100
Neways Industrial Systems B.V.	Son, the Netherlands	100	100
Neways Technologies B.V.	Son, the Netherlands	100	100
Neways Advanced Applications B.V.	Son, the Netherlands	100	100
Neways Micro Electronics B.V.	Echt, the Netherlands	100	100
Neways Cable & Wire Solutions B.V.	Echt, the Netherlands	100	100
Neways Leeuwarden B.V.	Leeuwaarden, 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 Beteiligungs 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 Decin 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 US Inc.	Wilmington, USA	100	100

A legal merger was effected between Neways Micro Electronics B.V., Neways Micro Electronics Holding B.V., Hymec Hybrid Circuits B.V. and Hymec Facilities B.V. in 2018, with Neways Micro Electronics B.V. as the remaining company.

The Group has a minority interest in the following entity:

	Domicile/country	Interest (%) 2018	2017
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 at 31 December 2018 and 2017, see Notes 9 and 17):

Amounts x € 1,000		Sales to	Purchases/ services from	Payable by	Payable to
Entity with meaningful influence over the Group:					
VDL Groep	2018	23,363	4,556	6,906	1,092
VDL Groep	2017	15,866	3,502	3,811	911
Key executives of the Group:	2018		0		
	2017		160		

Entity with meaningful influence over the Group

VDL Group: At 31 December 2018, VDL Beleggingen B.V. owned 27.9% of the issued shares in Neways Electronics International N.V. (31 December 2017: 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 2018, the Group had made no allowances for bad debts in connection with the receivables from related parties (2017: nil). 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%. In the financial year, € 3.9 million was converted into shares, so that the balance of these loans at 31 December 2018 stood at € 1.1 million. Repayments of the principal sums of these loans are subordinated in respect of all other existing and future debts to third parties (see also Note 13).

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 and an annual bonus. 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.

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 2018 is 11:1 (2017: 11:1). This ratio consists of the average remuneration of members of the Board of Directors in 2018 of € 468,000 (2017: € 483,000) 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 of € 41,000 (2017: € 44,000). This average remuneration comprises wages and salaries plus bonuses, options and performance shares of the employees in Western Europe, divided by the average number of employees in Western Europe.

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

2018	Basic salary	Pension charges	Social security charges	Bonuses	Performance shares	Other	Total
H.W.T. van der Vrande	318	39	10	118	75	57	617
P.H.J. de Koning	278	39	10	103	66	19	515
A.A.H. van Bragt	278	39	10	103	66	19	515
Total remuneration of key executives	**874**	**117**	**30**	**324**	**207**	**95**	**1,647**
Other key executives	**2.152**	**228**	**203**	**444**	**193**	**209**	**3,429**

2017	Basic salary	Pension charges	Social security charges	Bonuses	Share options and performance shares	Other	Total
H.W.T. van der Vrande	303	38	10	120	103	32	606
P.H.J. de Koning	265	38	10	105	92	19	529
A.A.H. van Bragt	265	38	10	105	92	39	549
Total remuneration of key executives	**833**	**114**	**30**	**330**	**287**	**90**	**1,684**
Other key executives	**2.233**	**239**	**204**	**372**	**223**	**197**	**3,468**

During the financial year, the employee expenses included € 108,000 (2017: € 123,000) for termination benefits for other key executives.

The status of conditionally awarded performance shares at the end of the financial year is as follows:

	2018		2017	
	Number	Vesting date	Number	Vesting date
H.W.T. van der Vrande	5,341	23-04-2021	7,314	18-04-2020
P.H.J. de Koning	4,672	23-04-2021	6,398	18-04-2020
A.A.H. van Bragt	4,672	23-04-2021	6,398	18-04-2020
Total remuneration of key executives	**14,685**		**20,110**	
Other key executives	**13,647**	**23-04-2021**	**17,131**	**18-04-2020**

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 members of the Supervisory Board received the following remuneration:

Amounts x € 1,000	2018	2017
H. Scheepers (Chairman)	40	40
R. Penning de Vries	30	30
P. van Bommel	30	30
Total	**100**	**100**

23. CONTINGENT EVENTS 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 at 31 December can be summarised as follows:

Amounts x € 1,000	2018	2017
Within 12 months	4,742	3,830
Beyond 12 months, but within 5 years	18,704	14,429
Beyond 5 years	13,947	12,528
Total	**37,393**	**30,787**

In 2018 the total expense arising from these rental agreements was € 3,938,000 (2017: € 3,771,000).

Other operating lease agreements

The Group has concluded operating lease arrangements for several of its operating assets. The average term of those lease arrangements is 3-5 years; the contracts do not specify a possibility for renewal. The future minimum lease obligations stemming from these non-terminable operating lease arrangements at 31 December can be summarised as follows:

Amounts x € 1,000	2018	2017
Within 12 months	992	919
Beyond 12 months, but within 5 years	1,238	1,122
Total	**2,230**	**2,041**

In 2018, the total expense arising from these operating lease agreements was € 1,439,000 (2017: € 1,389,000).

Guarantees

The Group has issued bank guarantees to the amount of € 4.5 million (2017: € 0.3 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.

Fiscal unity

The Company is included with the Dutch Group companies in a fiscal unity for corporate income tax purposes and VAT.
The Company is jointly and severally liable for all debts arising from these taxes.

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 principal risks arising in connection with the Group's financial instruments are market risk (interest rate risk on cash flows and currency risk), liquidity risk and 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 at 31 December 2018 and 2017.

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 interest rates, see Note 13.

Interest rate 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 profit before tax (x € 1,000)
2018	+15	–134
	–10	84
2017	+15	–101
	–10	68

Currency risk

The Group is exposed to currency risks on transactions, in relation to purchases and sales effected by business segments in currencies other than the functional currency. The Group's policy focuses on maintaining the purchasing volumes in currencies other 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 result before tax (x € 1,000)	Impact on equity (x € 1,000)
2018	+10%	781	–148
	–10%	–954	181
2017	+10%	683	–149
	–10%	–835	182

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 at 31 December 2018, based on contractual, nominal payments.

At 31 December 2018

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

At 31 December 2017

Amounts x € 1,000	On demand	< 3 months	3 tot 12 months	1 tot 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**

For a list of interest-bearing borrowings, see Note 13.

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 serious 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 Note 9. Approximately 65% of the balance of outstanding trade receivables is concentrated among 15 of the Group's customers. However, since the majority of those receivables are insured or payable within short time periods based on supplier finance programmes, management believes that no extraordinary risks are present. In addition, no payment problems have occurred with

these 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 2018 and 2017 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 providers of bank overdrafts have laid down requirements with regard to the Group's capital management. These covenants are set out in the credit agreements and are monitored periodically. The current credit agreement was established with the credit providers in 2016. 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 € 55 million at 31 December 2017 and in subsequent years. The providers 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 credit agreement was extended by one year in 2017 to 31 October 2019.

The credit agreement was extended again at the beginning of 2019 by a term of 3 years until the beginning of 2022 and the credit facility was increased. The current credit agreement, which consists of an available credit facility (overdraft and committed) of € 52.5 million, has been increased to € 65.0 million. The interest payable on the credit facility of 1-month Euribor + 1.4% to 2.3%, depending on the senior net debt/ EBITDA ratio, has been adjusted to 1-month Euribor + 1.3% to 2.2%. The minimum required LTM EBITDA has been increased from € 10 million to € 12.5 million. The minimum required adjusted guaranteed capital remains unchanged at € 55 million.

The adjusted guaranteed capital at 31 December 2018 was € 85.9 million. The Group applies strict working capital management in order to improve its solvency. In addition, if and for 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. The LTM EBITDA at 31 December 2018 stood at € 30.2 million. Failure to satisfy the minimum adjusted guaranteed capital requirement and/or the LTM EBITDA requirement will cause the loans provided to fall due immediately. At 31 December 2018, the Group complied with all covenants of the loan agreement set by the financial institutions. Combined with realisation of a profit in 2019, the Group expects to be compliant throughout 2019 with the covenants as revised by the financial institutions.

The table below presents an overview of the adjusted guaranteed capital and the LTM EBITDA.

Amounts x € 1,000 at 31 December	2018	2017*
Equity attributable to the parent company	101,632	85,048
Convertible subordinated loans	1,086	4,937
Less: Software	–5,155	–5,930
Goodwill	–2,754	–2,754
Customer relationships	–2,328	–3,174
Deferred tax assets	–3,820	–4,352
Adjusted guaranteed capital	**88,661**	**73,775**
Balance sheet total	245,021	204,400
Less: Software	–5,155	–5,930
Goodwill	–2,754	–2,754
Customer relationships	–2,328	–3,174
Deferred tax assets	–3,820	–4,352
Adjusted balance sheet total	**230,964**	**188,190**
Solvency	38.4%	39.2%

* The Group has applied IFRS 9 and IFRS 15 for the first time with effect from 1 January 2018. As a result of the chosen transition methods, the comparative figures have not been adjusted.

Amounts x € 1,000	2018	2017
Operating profit	21,042	14,301
Depreciation and amortisation	9,198	9,059
LTM EBITDA	**30,240**	**23,360**

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)

Assets x € 1,000 at 31 December	Note	2018	2017
Fixed assets			
Intangible assets	2	**734**	**734**
Financial assets			
Investments in Group companies	3	53,521	52,359
Receivables from Group companies	3	39,065	38,993
		92,586	**91,352**
Current assets			
Receivables			
Receivables from Group companies		0	3,062
Other receivables		0	6
		0	**3,068**
Cash and cash equivalents	6	**14,434**	**0**
Total assets		**107,754**	**95,154**

Liabilities x € 1,000 as at 31 December	Note	2018	2017
Equity	4		
Issued and paid-in capital		5,979	5,741
Share premium		44,326	40,312
Other reserves		32,513	24,259
Profit for the financial year		14,431	9,920
Translation reserve		658	610
Other legal reserves		3,725	4,206
		101,632	**85,048**
Non-current liabilities			
Interest-bearing borrowings	5	1,086	4,937
Deferred tax liabilities		1,230	430
		2,316	**5,367**
Current liabilities			
Bank overdrafts	6	0	3,551
Payable to Group companies	7	1,776	0
Corporate income tax		1,783	1,085
Other payables		247	103
		3,806	**4,739**
Total equity and liabilities		**107,754**	**95,154**

Notes 1 to 13 form an integral part of these company financial statements.

Company income statement

Amounts x € 1,000	Note	2018	2017
Operating income		0	0
Employee expenses	8	–400	–290
Other expenses		–139	–112
Operating profit		**–539**	**–402**
Finance income		855	840
Finance costs		–216	–375
Net finance costs		**639**	**465**
Result from participating interests	9	14,197	9,989
Profit before tax		**14,297**	**10,052**
Tax gain/(expense)		134	–132
Net profit		**14,431**	**9,920**

Notes 1 to 13 form an integral part of these company financial statements.

Notes to the company financial statements

1. GENERAL

These company financial statements and the consolidated financial statements together form the statutory financial statements of Neways Electronics International N.V. (hereinafter: 'the Company'). The financial information of the Company is included in the consolidated financial statements of the Company. The company financial statements of Neways Electronics International N.V. have been prepared in accordance with Part 9, Book 2 of the Dutch Civil Code.

The Company makes use of the option offered in Section 362(8), Book 2 of the Dutch Civil Code for establishing the accounting policies for its company financial statements. This means that the accounting policies for the company financial statements are identical to those 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 Note 2 to the consolidated financial statements for a description of these policies. All amounts in the company financial statements are presented in thousands of euros, unless otherwise stated.

Investments in Group companies

Group companies are all entities over which the Company has direct or indirect decisive control. The Company has decisive control over an entity when it is exposed to or entitled to variable proceeds as a result of its involvement and has the ability to influence these proceeds by means of its control over the Group company. Group companies are included in the consolidation from the date on which the Company acquires control and are deconsolidated on the date on which the Company ceases to have control of the Group company.

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. The net asset value is calculated according to the Company's accounting policies. 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 in the amount of the Company's projected payments for the subsidiary.

This 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 recognised under the provisions.

Other assets and liabilities are measured and results are determined in accordance with the accounting policies as disclosed in the Notes to the consolidated financial statements. The same applies to the method for determination of the result. As a result, Neways Electronics International N.V.'s equity and net results are identical to those as presented in the consolidated financial statements.

Result from participating interests

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

Taxes

The Company stands at the head of the fiscal unity. Corporate income tax is recognised for the proportion that is due from the Company as an independent taxpayer, taking account of allocation of the benefits of the fiscal unity. The settlement between the Company and its subsidiaries within the fiscal unity is effected through the current account relationships.

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	2018	2017
Balance at 1 January	**52,359**	**62,456**
Movements		
Income from subsidiaries after tax	14,197	9,989
Other comprehensive income from subsidiaries after tax	–16	43
Dividend received from participating interests	–15,000	–20,000
Exchange gains and losses	11	–129
Adjustment for IFRS 15	2,053	0
Other movements	–83	0
	1,162	**–10,097**
Balance at 31 December	**53,521**	**52,359**

See Note 22 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	2018	2017
Balance at 1 January	**38,993**	**39,054**
Movements		
Additions	34	100
Exchange gains and losses	38	–161
	72	**–61**
Balance at 31 December	**39,065**	**38,993**

Amounts x € 1,000	Interest rate	Outstanding amount 2018	Outstanding amount 2017
Loan to Neways Deutschland GmbH.	2%	36,467	36,467
Loan to Neways Wuxi Electronics Co. Ltd.	1.75%	2,598	2,526
Total		**39,065**	**38,993**

These are both long-term loans with no repayment required. The interest rate for the loan to Neways Wuxi Electronics Co. Ltd. was changed from 5% to 1.75% on 1 January 2018.

4. EQUITY

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

The movement of this item is as follows:

Amounts x € 1,000	2018	2017
Balance at 1 January	**4,206**	**4,687**
Movements	–481	–481
Balance at 31 December	**3,725**	**4,206**

Proposed profit appropriation for 2018

With the approval of the Supervisory Board, the Board of Directors will propose to the General Meeting that the result after tax for 2018 should be appropriated as follows: to distribute a sum of € 4,184,000 as dividend and to add the remainder of € 10,247,000 to the other reserves.

A dividend of € 0.35 per share was distributed for the 2017 financial year. It will be proposed that a dividend of € 0.48 per share is distributed for the 2018 financial year. For more information, see Note 12 to the consolidated financial statements.

The Company may only distribute profit available for distribution to shareholders and other beneficiaries to the extent that its equity exceeds the paid-in and called-up part of the capital plus the reserves that have to be held pursuant to statute and the articles of association.

5. INTEREST-BEARING BORROWINGS

Amounts x € 1,000	Effective interest rate	Maturity date	Outstanding amount 2018	Outstanding amount 2017
Current				
Convertible subordinated loans	4.6%	30 Sept. 2019	1,086	0
Long-term				
Convertible subordinated loans	4.6%	30 Sept. 2019	0	4,937

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

6. CASH AND CASH EQUIVALENTS

The cash and cash equivalents recognised are freely available. The credit facility available at 31 December 2018 (overdraft and committed facilities) total € 52.5 million (interest rate: Euribor + 1.4% to 2.3%, depending on the net debt/EBITDA ratio). At the balance sheet date, € 42.1 million of the credit facility was in use for overdrafts and bank guarantees (31 December 2017: € 33.2 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 of the Dutch and German Group companies.
The total value of the pledge at 31 December 2018 was approximately € 86 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 at 31 December 2018 and for the EBITDA to be not less than € 10 million. Further details of the bank covenants with financial institutions are provided in Note 24.

7. PAYABLE TO GROUP COMPANIES

The payables to Group companies do not include any items with a remaining term of more than 1 year (2017: nil).

8. 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.

9. RESULT FROM PARTICIPATING INTERESTS

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

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

For information about the remuneration of the Board of Directors and the Supervisory Board, see Note 22 to the consolidated financial statements.

11. AUDITOR'S FEES

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

Amounts x € 1,000	KPMG Accountants N.V. 2018	Other KPMG Network 2018	Total KPMG 2018
Audit of the financial statements	228	0	228
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. 2017	Other KPMG Network 2017	Total KPMG 2017
Audit of the financial statements	251	0	251
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 audit of the 2018 (2017) financial statements relate to the total fees for the audit of the 2018 (2017) financial statements, regardless of whether these activities were carried out during the 2018 (2017) financial year.

12. 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, see Notes 5 and 6.

For all other risks, see Note 24.

13. LIABILITIES NOT INCLUDED IN THE BALANCE SHEET

The Company is included with the Dutch Group companies in a fiscal unity for corporate income tax purposes and VAT.
The Company is jointly and severally liable for all debts arising from these taxes.

The Company has declared itself liable, pursuant to Section 403, Book 2 of the Dutch 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 € 4.5 million (2017: € 0.3 million) in connection with credit provided by non-Dutch banks.

Son, 21 February 2019

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

KPMG

Independent auditor's report

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

Report on the audit of the financial statements 2018 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 2018 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 2018 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 2018 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 2018;
2 the following consolidated statements for 2018: the statements of profit or loss and comprehensive income, cash flows and changes in equity; and
3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1 the company statement of financial position as at 31 December 2018;
2 the company income statement for 2018; 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 850,000 - 5% of profit before tax

Group audit
- 90% of total assets - 94% of revenue

Key audit matters
- Revenue recognition - Provision for obsolete inventory - Adoption of IFRS 15 (revenue)

Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 850,000 (2017: EUR 500,000). The materiality is determined with reference to profit before tax (5% (2017: 5%)). We consider profit before tax as the most appropriate benchmark as the key stakeholders are primarily focused on profit before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 36,800 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

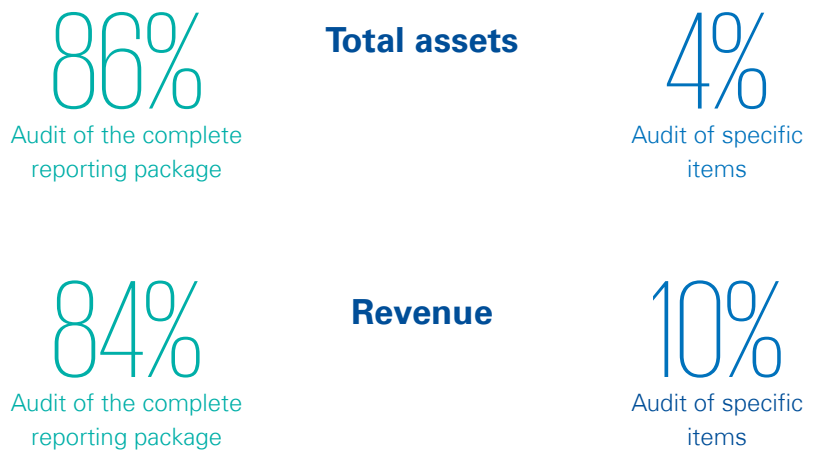
Neways Electronics International N.V. is at the head of a group of components. The financial information of this group is included in the financial statements of Neways Electronics International N.V.

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

Considering the significance and/or the risk profile of the remaining components, we haveperformed 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 group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

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



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

In accordance with the Dutch Standards on Auditing we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures we will make use of the evaluation of management in relation to fraud risk management (prevention, detection and response), including ethical standards to create a culture of honesty.

In our process of identifying fraud risks we assessed fraud risk factors, which we discussed with management and the Supervisory Board. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. We also assessed factors related to the risk of non-compliance with laws and regulations which could have a direct or indirect impact on the financial statements.

Based on the auditing standards we addressed the following presumed fraud risks that were relevant to our audit:

- fraud risk in relation to the cut-off of revenue recognition
- fraud risk in relation to management override of controls

Our audit procedures included an evaluation of the of internal controls relevant to mitigate these risks and supplementary substantive audit procedures, including detailed testing of (administrative) journal entries on revenue, raw materials and consumables and inventories.

Data analytics are part of our audit approach to address fraud risks which could have a material impact on the financial statements. This also relates to audit procedures carried out to address the risk of management override of controls.

For details regarding our procedures on the cut-off of revenue recognition we refer to the key audit matter on this topic as included in this auditor's report.

Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our procedures to address fraud risks and/or risk of non-compliance to laws and regulations did not result in findings to be included in this audit report.

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 the operation of General IT Controls is no longer included since we have concluded that the internal control with respect to the IT-systems (BAAN IV and Infor LN) have operated effectively during this year.

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 or understating revenue. Given the very positive development of revenue during this year, we assessed the risk of understatement of revenue at year end as significant. Since for some components revenue was lagging behind this positive development we assessed the risk of overstatement of revenue at year end for these components as well 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 and after 31 December 2018 with delivery documents and credit notes sent before and after year-end. Furthermore, we carried out audit procedures on journal entries on revenue other than entries from the regular sales process. 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 the provision for obsolete inventories

Description

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

Our response

We have performed a retrospective analysis to evaluate the historical accuracy of management's estimates, from which no significant differences appeared.
We have reperformed the calculation of the provision for obsolete inventories prepared by management. We assessed the reliability of information used by management, which includes data such as historical usage and future use through involvement of our IT-specialists.
In our assessment we have also taken into consideration our observations from meetings with management, observations during inventory counts and expectations of management for 2019.

Our observation

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

Adoption of IFRS 15 (revenue)

Description

This year the company has to apply for the first time the requirements of the new standard IFRS 15 (revenue from contracts with customers). Since first-time application of IFRS 15 (including disclosures) could increase the risk of misstatements, this was significant to our audit.

Our response

We have assessed the processes, systems and controls implemented by management. We noted that management has not implemented specific controls with respect to a correct cut-off of revenue in accordance with IFRS 15. As a result, we had to perform substantive audit procedures.
We evaluated the reasonableness of management's key judgements and estimates made in adopting IFRS 15, including selection of methods, assumptions and data sources.
We assessed the appropriateness of management's revenue recognition under IFRS 15 for a sample of contracts. The accuracy and relevance of data was verified through a sample.
Further we evaluated the appropriateness of the accounting policies based on the requirements of IFRS 15, and evaluated the completeness, accuracy and relevance of disclosures required by IFRS 15.

Our observation

Overall we assess that the assumptions applied resulted in a balanced outcome.
The company's disclosures related to the adoption of IFRS 15 as set forth in item 2.2 of the Notes to the 2018 financial statements are in compliance with the requirements of IFRS.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information 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; and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

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

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is 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 company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

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

Our responsibilities for the audit of the financial statements

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

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

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

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

This description forms part of our auditor's report.

Eindhoven, 21 February 2019

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

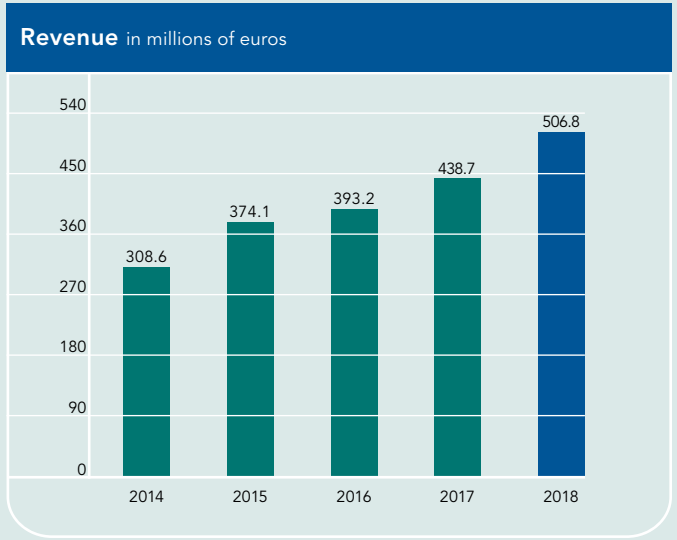
Article 31 of the Company's articles of association states that profit may be distributed to the extent that the equity exceeds the paid-in and called-up part of the capital plus the statutory reserves. With the prior approval of the Supervisory Board, profit may be entirely or partially added by the Board of Directors to the reserves. Profit not added to the reserves shall be at the disposal of the General Meeting of Shareholders.
The General Meeting of Shareholders may, on the basis of a proposal by the Board of Directors approved by the Supervisory Board, resolve to distribute profit from a distributable profit reserve. The General Meeting of Shareholders may, on the basis of a proposal by the Board of Directors approved by the Supervisory Board, resolve to distribute profit in the form of shares in the Company, without prejudice to the provisions of the Company's articles of association with respect to issuance of shares.

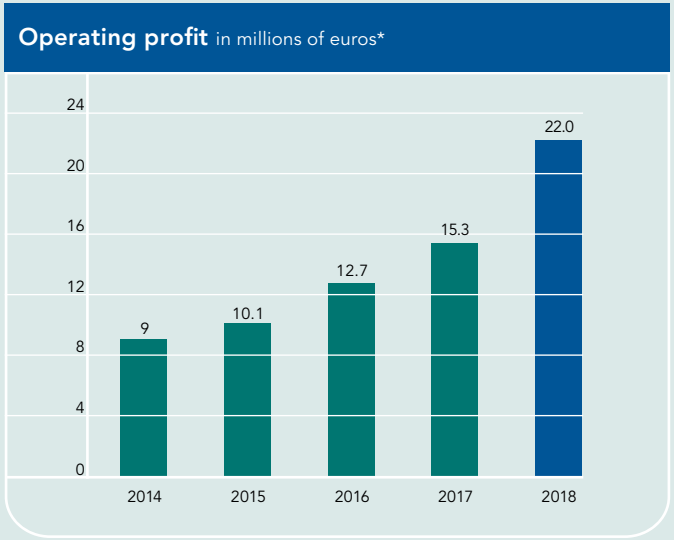
Proposed profit appropriation

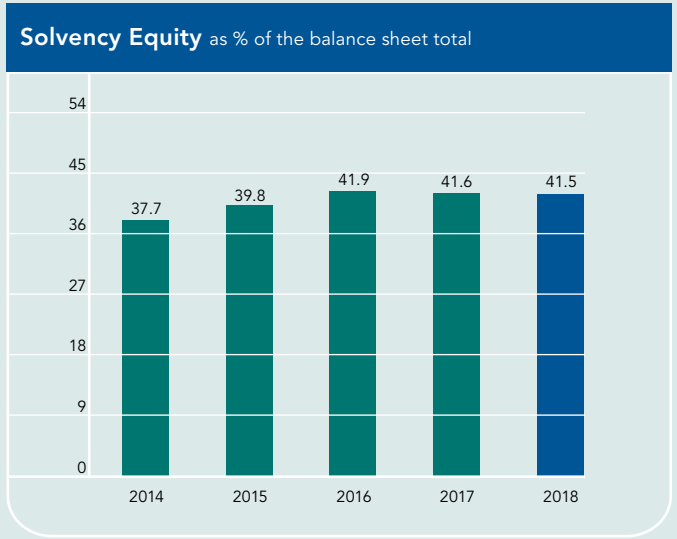
The income statement shows that the net profit in 2018 amounts to € 14,431,000.

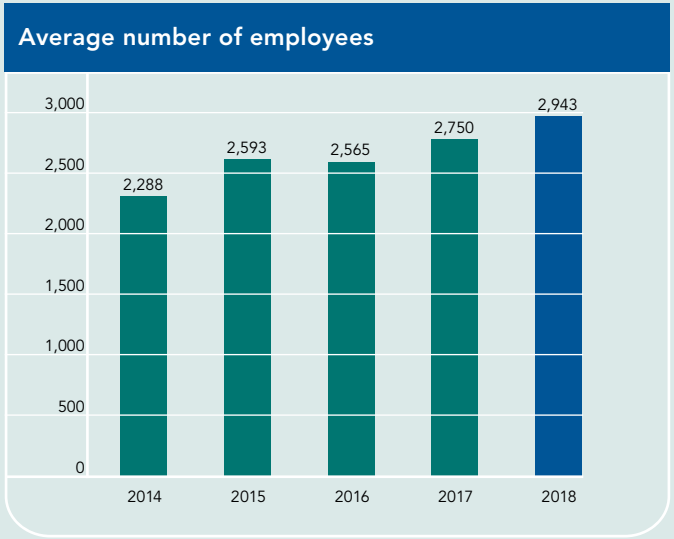
It will be proposed that the net profit should be added to the retained earnings reserve. It will also be proposed that a dividend of € 0.48 per share be distributed for the 2018 financial year. The dividend will be paid in cash.

Key figures and five-year summary 2014 – 2018









* Excluding exceptional income and expense.

Amounts in € x million, unless otherwise stated	2018	2017*	2016	2015	2014
Revenue	506.8	438.7	393.2	374.1	308.6
Gross margin	195.2	171.3	153.8	147.5	124.9
Operating profit net of exceptional income and expense	22.0	15.3	12.7	10.1	9.0
Operating profit	21.0	14.3	11.8	5.9	6.6
Net profit net of exceptional income and expense	15.1	10.0	9.2	6.2	5.3
Net profit	14.4	9.9	9.7	3.2	7.0
Net cash flow**	–4.5	–3.4	2.6	2.9	–32.5
Equity	101.6	85.0	78.9	70.6	66.0
Guaranteed capital***	102.7	89.9	83.9	75.5	70.9
Balance sheet total	245.0	204.4	188.1	177.1	175.2
Capitalised goodwill	2.8	2.8	2.8	2.8	2.8
Interest coverage ratio****	11.2	10.2	6.8	4.9	6.9
Net Debt/EBITDA ratio****	1.4	1.6	1.5	1.9	1.7
Solvency					
Equity as % of balance sheet total	41.5	41.6	41.9	39.8	37.7
Guaranteed capital as % of balance sheet total	41.9	44.0	44.6	42.6	40.5
Profitability ratios****					
Return on equity	14.9	11.8	11.7	8.8	8.1
Operating profit as % of revenue	4.3	3.5	3.2	2.7	2.9
Net profit as % of revenue	3.0	2.3	2.3	1.7	1.7
Operating profit as % of invested capital	21.0	16.5	14.7	11.7	9.7

Amounts in € x million, unless otherwise stated	2018	2017*	2016	2015	2014
Information per employee					
Average workforce (in FTEs)	2,943	2,750	2,565	2,593	2,288
Revenue per employee (x 1,000)	172	160	153	144	135
Gross margin per employee (x 1,000)	66.3	62.3	60.0	56.9	54.6
Information per ordinary share, in euros (based on number of shares as at year-end)					
Net profit	1.20	0.86	0.85	0.28	0.63
Net profit****	1.26	0.87	0.80	0.55	0.49
Equity	8.50	7.40	6.89	6.19	6.01
Net cash flow	–0.38	–0.30	0.23	0.25	–2.96
Dividend	0.48	0.35	0.34	0.11	0.25
Dividend as a % of net profit	40.0	40.0	40.0	40.0	40.0
Number of shares at year-end x 1,000	11,958	11,481	11,459	11,401	10,986
Highest price	18.60	14.21	10.21	10.45	9.80
Lowest price	9.88	9.20	6.65	6.78	6.05
Balance at 31 December	10.10	13.65	9.28	7.50	7.30

* The Group has applied IFRS 9 and IFRS 15 for the first time with effect from 1 January 2018. As a result of the chosen transition methods, the comparative figures have not been adjusted.

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

*** Including convertible subordinated loans.

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

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