annual report 2018

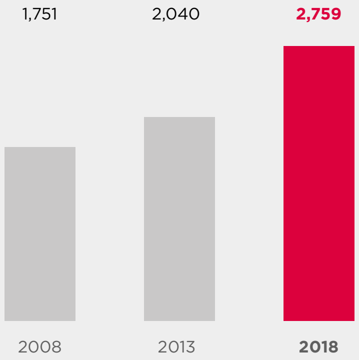
highlights 2018

- revenue +2% to EUR 2,759 million (organic +5%)
- operating profit (EBITA) +9% to EUR 366 million; EBITA-margin improved to 13.3%
- net profit before amortisation +15% to EUR 275 million; earnings per share EUR 2.49 (+16%)
- free cash flow amounted to EUR 312 million; return on capital employed (ROCE) improved to 16.6%
- continued investments in organic growth and innovation initiatives
- bolt-on acquisitions: PEM, VAF, Co-Planar and RMF; annual revenue of EUR 82 million
- annual revenue of EUR 97 million divested and optimised

key figures 2008-2018

revenue

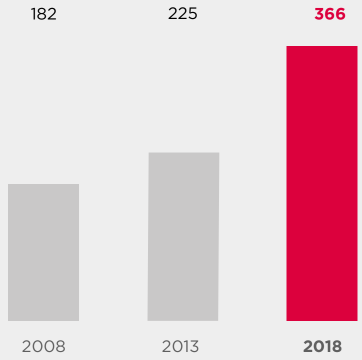
(in EUR million)



2,759

operating profit (EBITA)

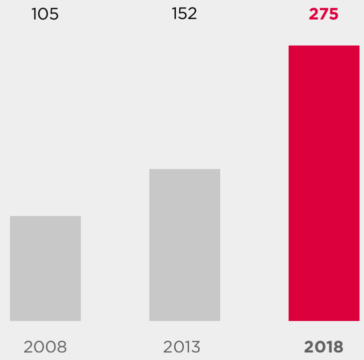
(in EUR million)



366

net profit (before amortisation)

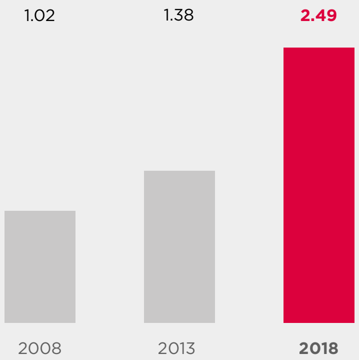
(in EUR million)



275

earnings per share (before amortisation)

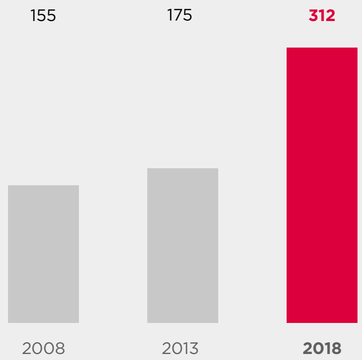
(in EUR)



2.49

free cash flow (before interest and tax)

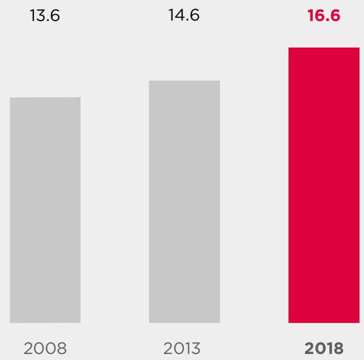
(in EUR million)



312

return on capital employed (ROCE)

(in %)

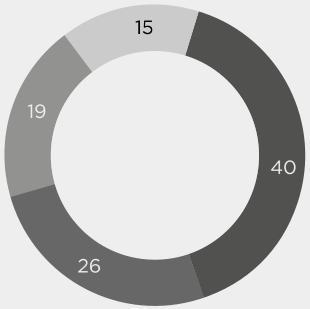


16.6

more key figures 2014-2018 on page 138

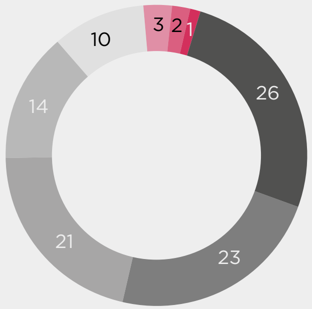
revenue spread

per business
(in %)



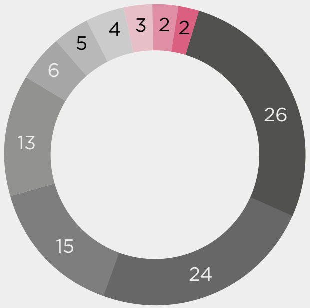
- installation technology **40%**
- material technology **26%**
- climate technology **19%**
- industrial technology **15%**

per region
(in %)



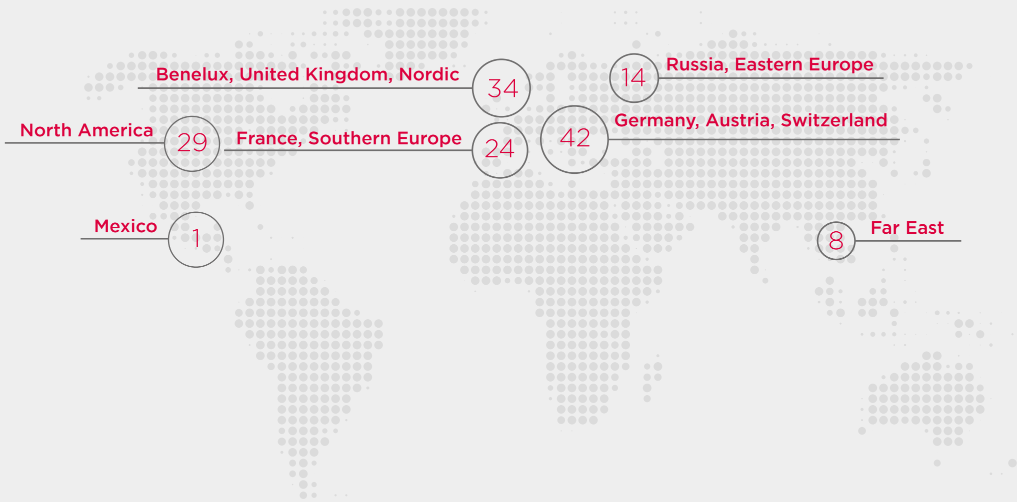
- Benelux, United Kingdom, Nordic **26%**
- North America **23%**
- Germany, Austria, Switzerland **21%**
- France, Southern Europe **14%**
- Russia, Eastern Europe **10%**
- Far East **3%**
- Middle East & Africa **2%**
- other countries **1%**

per end market
(in %)



- commercial buildings **26%**
- residential buildings **24%**
- general industries **15%**
- automotive **13%**
- semicon & science **6%**
- industrial installations **5%**
- water & gas supply, irrigation **4%**
- beverage dispense **3%**
- district energy, gas **2%**
- power generation, aerospace **2%**

locations wordwide



message of the CEO

Dear shareholders, partners and colleagues,

We are pleased to report another record year for Aalberts. Our strategic focus on accelerating our defined niche technologies is in full progress and delivering good results. We realised 5% organic revenue growth in 2018, posted a record net profit before amortisation of EUR 275 million with earnings per share of EUR 2.49, an increase of 16% from last year. We achieved an EBITA of EUR 366 million with an EBITA margin of 13.3% (2017: 12.5%). Our free cash flow improved to EUR 312 million. We increased our capital expenditures to EUR 134 million, reflecting the many business and innovation opportunities we see going forward.

Our niche technology portfolio and end market positions were further strengthened by four acquisitions: PEM, VAF, Co-Planar and RMF. We divested several businesses and product lines to focus our capital allocation and to improve our profitability. We extended our operational excellence programme with many additional projects. Our return on capital employed (ROCE) improved to 16.6% (2017: 16.2%).

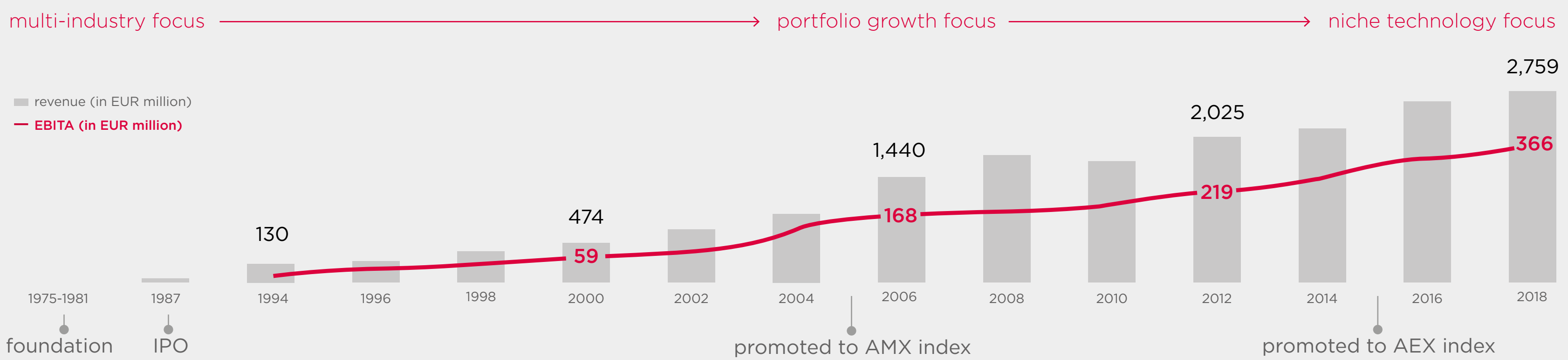
Aalberts made good steps with the implementation of the 'focused acceleration' strategy and objectives, presented end of 2017. The combination of continuously improving our business performance, driving our long-term business plans and innovation roadmaps and portfolio optimisation generates a compounding effect on profit, returns and cash flow.

We will propose a record dividend to the General Meeting of EUR 0.75 per share to be paid in cash, an increase of 15% from 2017.

The Aalberts way of value creation is to establish worldwide leading niche technology positions in defined end markets, resulting in high entry barriers and pricing power while generating high added value margins and sustainable profitable growth. Through operational excellence projects we continuously improve our EBITA margins with a strong cash conversion. The cash generation is allocated in a disciplined way to achieve even better niche technology positions in the defined end markets, organically and through acquisitions.

Greatness is made of shared knowledge: exchanging technology, innovations, applications, best practices and know-how. The Aalberts networks stimulate and accelerate this fast learning process. We are continuously innovating our customer offering and internal processes, keeping us ahead of the game in a fast moving world. Our entrepreneurial, dedicated and motivated business teams are the passionate drivers of our long-term business plans and innovation roadmaps, based on the overall Aalberts strategy and objectives. The business teams take full ownership for their plans and daily performance, while the Aalberts Executive Team is driving the overall performance together with our small head office, facilitating the growth potential.

40 years of sustainable profitable growth



"Through a focused and disciplined capital allocation, based on long-term plans we drive shareholder value continuously forward. Our track record and our ability to deliver this performance demonstrates the sustainability of our business model."

After a period of transformation, our lean and effective Aalberts structure is now fully in place. Our Aalberts networks are improving year-on-year, guided by our 'go for excellence' culture. These Aalberts networks, driven forward by the Executive Team and head office, stimulate teamwork and exchanging knowledge, best practices, innovations and know-how. The launch of the Aalberts company passport in 2018 accelerates this process, bringing the group closer together without losing focus and ownership of the business teams. The transfer to the new head office in WTC Utrecht will further contribute to 'the Aalberts way' of working, enabling better connectivity with our business teams. Sustainability, relations and communication with our stakeholders becomes an increasingly important topic. Attracting and retaining talents, shareholders and partners in combination with a growing responsibility for sustainable entrepreneurship is key to our future success.

We will communicate our Aalberts story more than ever, having so much to tell and share, showing stakeholders and future talents who we are, our potential, responsibility and vision. Our organisation is professionalising and improving continuously, with a good team spirit and we are accelerating. We will embrace every idea, innovation and thought to improve ourselves continuously, and we will empower all the great people at Aalberts to realise the best performance for all our stakeholders, 'the Aalberts way - winning with people'.

Looking ahead to 2019 we remain confident in the execution of the many growth and innovation initiatives and investment plans. We will pursue our strategy 'focused acceleration' and objectives, drive our profitability further and convert strong operational execution into free cash flow.

We would like to thank our shareholders and partners for the trust they place in Aalberts. Thank all our employees for their tremendous efforts to serve our customers, being an entrepreneur and innovator in this fast changing world, generating better results every year and taking ownership in many exciting opportunities. 'The Aalberts way - winning with people' will continue to guide our culture.

Looking forward to another good year in 2019.

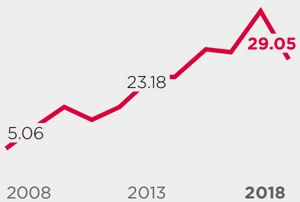
Sincerely,

Wim Pelsma

shareholder value creation

share price

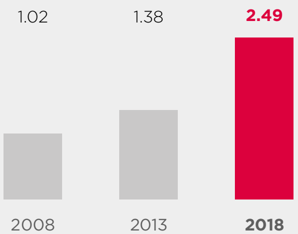
(in EUR)



CAGR +19%

earnings per share

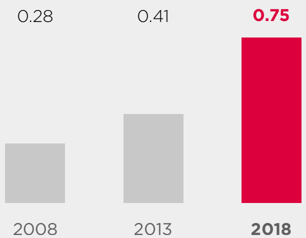
(in EUR)



CAGR +9%

dividend per share

(in EUR)



CAGR +10%

return on incremental capital employed (ROICE)

	EBITA	capital employed
2008	182	1,352
2018	366	2,262
Δ	184	910

20.2%

we are Aalberts

our culture

the Aalberts way – winning with people

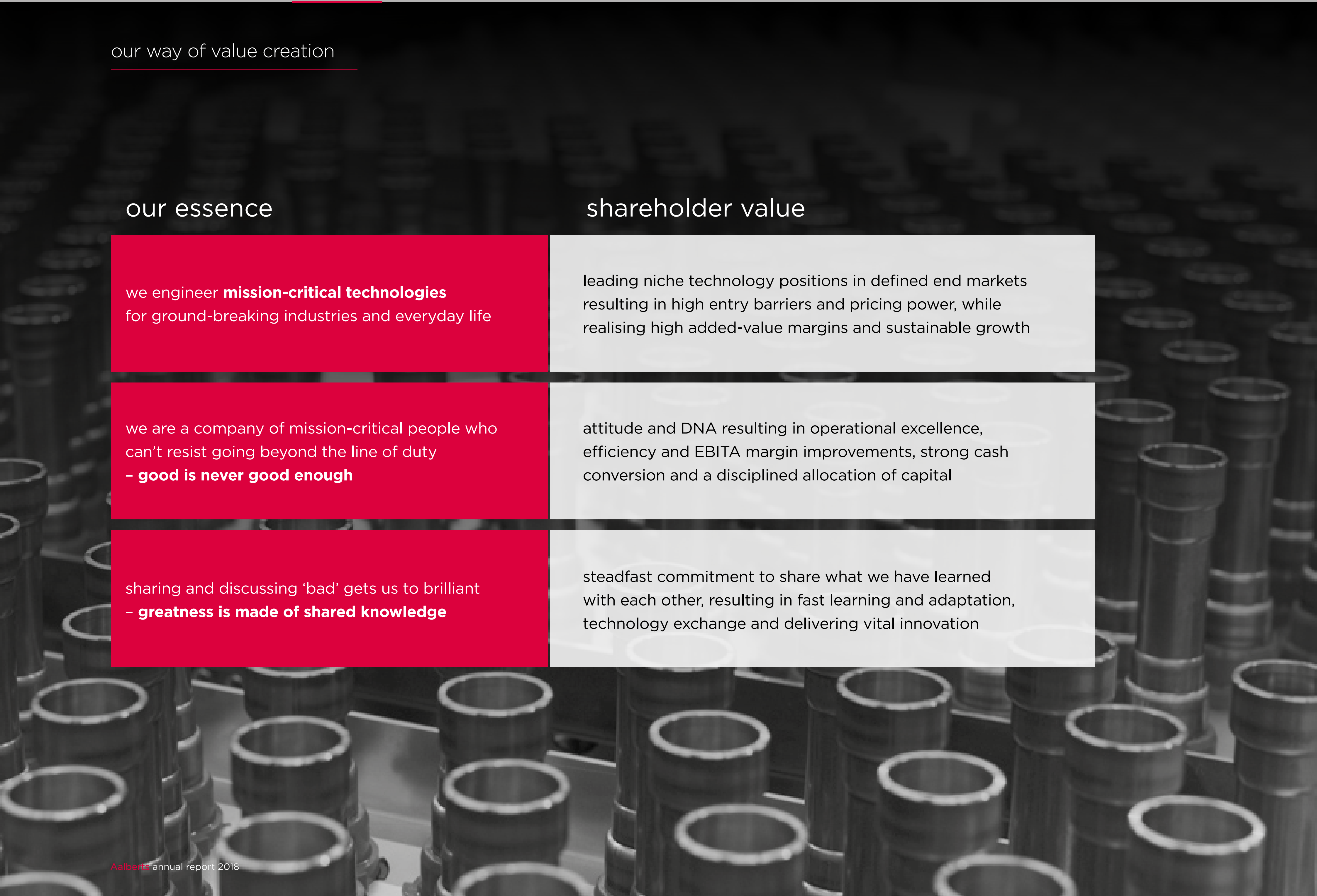
- be an entrepreneur
- take ownership
- go for excellence
- share and learn
- act with integrity

This is the DNA of our company, it is what we stand for and what we practice and deliver every day. It is the common language in our organisation, it has been our strength since day one and is our foundation for an even greater future with new growth paths for the company. It also gives us a focus when we review, recruit, coach and develop our talents.

"greatness is made of shared knowledge our unique advantage"

Long-term value creation can only be achieved by maintaining a company culture that embraces transparency and trust.
We stimulate and protect a culture where people feel the need – and feel safe – to speak up and act with integrity. For us, this is real governance.

our way of value creation



our essence	shareholder value
we engineer **mission-critical technologies** for ground-breaking industries and everyday life	leading niche technology positions in defined end markets resulting in high entry barriers and pricing power, while realising high added-value margins and sustainable growth
we are a company of mission-critical people who can't resist going beyond the line of duty **– good is never good enough**	attitude and DNA resulting in operational excellence, efficiency and EBITA margin improvements, strong cash conversion and a disciplined allocation of capital
sharing and discussing 'bad' gets us to brilliant **– greatness is made of shared knowledge**	steadfast commitment to share what we have learned with each other, resulting in fast learning and adaptation, technology exchange and delivering vital innovation

our profile

Aalberts engineers mission-critical technologies for ground-breaking industries and everyday life. From particle and vibration-free chip-making equipment to better performing cars, from efficient production and manufacturing environments to eco-friendly buildings, from light and long-lasting high-tech materials to perfectly drafted beverages. We are where technology matters and real progress can be made. Humanly, environmentally and financially.

Aalberts has been listed on Euronext Amsterdam (AALB.AS) since March 1987 and is included in the AEX index since 23 March 2015. With over 16,000 employees, Aalberts operates approximately 70 business locations and 80 service locations with activities in over 50 countries.

Our head office, based in the Netherlands with approximately 25 employees including the Management Board, facilitates central functions like strategy, marketing & communications, M&A, business development, group control, legal and governance, treasury, tax, insurance, sustainability, internal audit and all responsibilities and communications towards our shareholders.

Our lean and efficient organisational structure of four business segments is covered by entrepreneurial business teams.

our global leading niche technology positions

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page 26

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our strategy and objectives 2018-2022

strategy 'focused acceleration'

- remain focused
- improve technology positions
- improve profitability continuously
- use Aalberts strengths

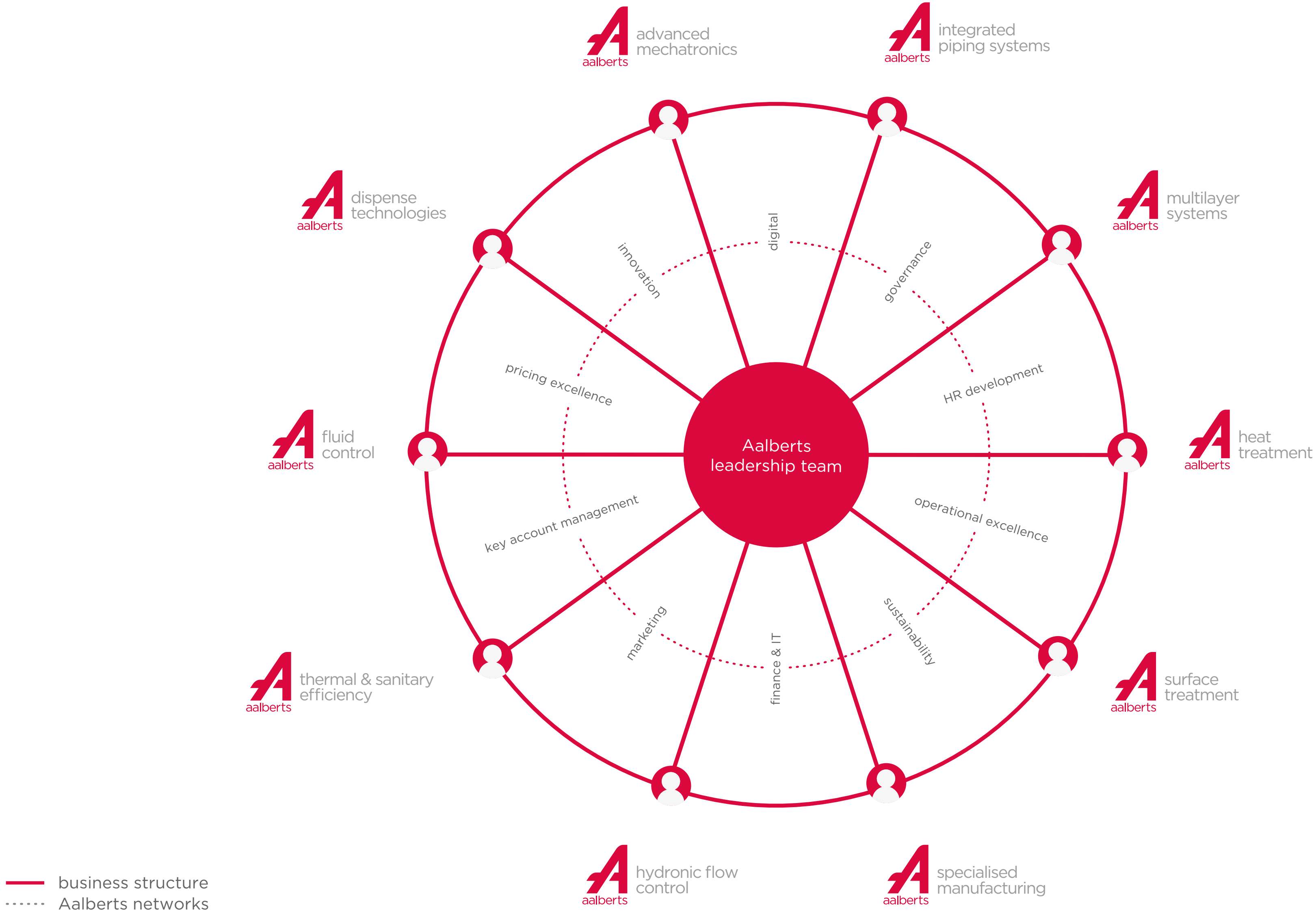
non-financial objectives

- worldwide leading niche technology positions
- creating sustainable profitable growth
- generating high added-value margins
- converting strong operational execution into free cash flow

financial objectives

- average organic revenue growth > 3%
- EBITA margin > 14%
- return on capital employed (ROCE) > 18%
- free cash flow conversion ratio > 70%
- leverage ratio < 2.5
- solvability > 40%

our lean and effective structure



strategy in action

installation technology

More than simply a pipe provider, Aalberts multilayer systems offers solutions that can be used in different parts of the building. In 2018 we continued to roll out new product offerings that help us capture market growth.

With customers and home owners increasingly focused on sustainability, we are developing solutions that take up less space in apartments, and are more sustainable.

Our main strategic goal is to continue to focus on growth, while maintaining our long-term R&D development. Over the last few years we have developed our own sales teams across Europe, and will continue to tap into the local knowledge we are developing to expand our market share. At the same time, we are looking at cost efficient, easy-to-install products for markets in other regions, such as South America and Asia.

We also introduced a range of new applications. Moving beyond systems designed for underfloor heating and cooling in combination with heat pumps enables us to enter new markets and new sales channels. Recent innovations in fire protection and compressed air open the door to new customers, such as architects and real estate developers.

material technology

With ongoing investments to help us grow organically, our strategic goal is to balance our presence in Europe, North America and Asia. Our global ability to provide worldwide active key accounts with traceability along the supply chain gives us a competitive edge.

We acquired three companies during the year that strengthen our portfolio and enable us to offer our customers more value-added services. In Europe we acquired a specialist in reel-to-reel surface treatment of metals, enabling a reduced use of raw materials. In North America we acquired a specialist in corrosion protection surface technologies for the automotive, general industries and aerospace end markets, with service locations strategically positioned near many OEMs in the southeastern region. We also acquired a specialist in complex precision stamping, which will help us expand our key accounts in the USA and Mexico.

There is an increase in global requirements amongst customers. By having a more diverse and future-focused portfolio, we will be able to adapt to the market's fast-changing demands. The investments we have made over the last few years have created a strong foundation for future growth.

climate technology

creating energy savings

Focused on implementing our long-term business plan and innovation roadmap, we rolled out a series of pilots to develop 'digital' solutions and data collection, enabling us to create new business models. Our climate technology portfolio and services are aimed at enabling building owners to save energy and water.

For example, in France we worked with a building owner of 72 social housing apartments to install our Smart Home Thermostats. The pilot covered two out of three identical buildings, enabling the owner to perform a comparative test. The tenants only provided 'too cold' or 'too hot' feedback and the thermostats took care of the rest: learning the thermal inertia of the building and apartment occupancy.

As well as leading to improved comfort for tenants, our technology also resulted in a significant drop in energy use compared to those apartments without our thermostats. The owner now has the possibility to use the information that is generated for monitoring and maintenance.

The pilots bring us great insights and enable us to learn fast. Our pragmatic culture and lean structure will keep us ahead of the game.

industrial technology

exchanging technology and know-how

We engineer and manufacture solutions for specific niche applications to regulate and control gasses and liquids under severe and critical conditions. We co-develop solutions with key accounts who often face numerous responsibilities and challenges.

In 2018, for example, two major European ship owners with a total fleet of over 360 vessels contracted Aalberts fluid control to minimise the environmental footprint of their ships. When it comes to propulsion management, optimising performance is key. Cost-effective goals are not the only drivers for performance management—environmental impact, competition and pending rules and regulations are also considered.

We managed to equip the vessels with cutting-edge sensors, enabling fuel consumption to be measured and monitored. With the data generated from these sensors, the ship owners can now manage and reduce fuel consumption and greenhouse gas emissions, resulting in more sustainable transportation in shipping.

Acquiring a specialist in high-tech sensors and measurement systems in 2018, brings extra knowledge to the Aalberts portfolio, which can be valuable in other applications.

the Aalberts share

At year-end 2018, a total number of 110,580,102 ordinary shares with a nominal value of EUR 0.25 each were in circulation; the market capitalisation amounted to EUR 3,212 million (at year-end 2017: EUR 4,688 million).

dividend policy

In the General Meeting of 2015, shareholders agreed to a dividend payment percentage of 30% of net profit before amortisation and dividends only to be paid in cash.

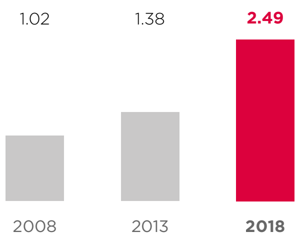
shareholders' interests

Around 85% of the shares is freely tradable. Pursuant to the Decree on Disclosure of Major Holdings and Capital Interests in Securities-Issuing Institutions as part of the Dutch Financial Supervision Act, shareholders holding more than 3% of the outstanding shares must be disclosed.

shareholder	interest	disclosure date
Aalberts Beheer B.V., J. Aalberts, J.A.M. Aalberts-Veen	13.27%	3 February 2011
FMR LLC	9.97%	2 February 2018
Capital Research and Management Company	5.51%	30 November 2017
OppenheimerFunds, Inc.	4.99%	25 October 2018
BlackRock, Inc.	4.97%	5 September 2018
Smallcap World Fund, Inc.	3.06%	18 September 2018
BNP Paribas Asset Management Holding	3.01%	26 November 2018
New Perspective Fund	3.00%	17 September 2018

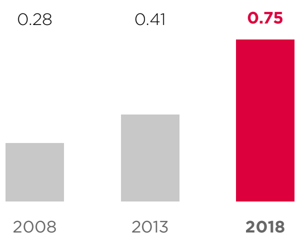
earnings per share

(in EUR)



dividend per share

(in EUR)



key share information	2018	2017	2016	2015	2014
closing price at year-end (in EUR)	29.05	42.40	30.82	31.79	24.54
highest price of the year (in EUR)	45.05	43.77	32.00	31.92	25.90
lowest price of the year (in EUR)	27.43	29.97	25.70	22.81	18.27
average daily trading (in EUR thousands)	12,169	11,792	8,402	9,494	4,345
number of shares issued as at year-end (in millions)	110.6	110.6	110.6	110.6	110.6
market capitalisation at year-end (in EUR millions)	3,212	4,688	3,408	3,515	2,713
earnings per share before amortisation (in EUR)	2.49	2.15	1.92	1.72	1.52
dividend per share (in EUR)	0.75	0.65	0.58	0.52	0.46
price/earnings ratio at year-end	11.7	19.7	16.1	18.5	16.1

report of the Management Board

business development

Aalberts operates worldwide in four business segments. Market developments and dynamics are different in each business segment. This divergence contributes to the long-term, balanced and sustainable profitable growth.

In addition, it gives us the opportunity to accelerate and develop our niche technologies, end markets and regions simultaneously. We allocate our capital where we make the highest return. We are where technology matters and real progress can be made. We drive our innnovation roadmaps and strengthen our technology positions through bolt-on acquisitions and optimisations in our existing portfolio, continuously creating shareholder value.

The Executive Team is responsible for the day to day leadership of the business teams, driving forward the worldwide development of our niche technologies, best practices exchange through specialised Aalberts networks and our strategy 'focused acceleration' 2018-2022 to achieve our Aalberts objectives. A lean and effective management structure.

Executive Team (fltr): Marcel Abbenhuis, Maarten van de Veen, Oliver Jäger, Wim Pelsma, John Eijgendaal, Arno Monincx, André in het Veld

financial development

revenue per business

in EUR million	2018	2017	Δ
installation technology	1,119.4	1,134.8	(1%)
material technology	746.7	733.9	2%
climate technology	546.0	523.8	4%
industrial technology	409.3	362.9	13%
holding / eliminations	*(62.5)*	*(61.4)*	
total	**2,758.9**	**2,694.0**	**2%**

EBITA

in EUR million	2018	2017	Δ
installation technology	134.1	138.7	(3%)
material technology	102.1	97.3	5%
climate technology	65.4	62.3	5%
industrial technology	64.3	54.4	18%
holding / eliminations	*(0.4)*	*(17.2)*	
total	**365.5**	**335.5**	**9%**

The revenue increased by 2.4% (organic +4.6%) to EUR 2,759 million (2017: EUR 2,694 million). Currency translation/FX impact amounted to EUR 39 million negative (mainly caused by US Dollar and Russian Ruble).

The added-value margin (revenue minus raw materials and work subcontracted) improved to 62.6% (2017: 62.3%).

Operating profit (EBITA) increased by 9% to EUR 366 million (2017: EUR 336 million), 13.3% of the revenue (2017: 12.5%). Currency translation/FX impact amounted to EUR 4.3 million negative (mainly caused by US Dollar and Russian Ruble).

Net interest expense amounted to EUR 16.7 million (2017: EUR 16.7 million).

The income tax expense decreased to EUR 65.6 million (2017: 68.0 million) resulting in an effective tax rate of 21.4% (2017: 24.6%).

Net profit before amortisation increased by 15% to EUR 275 million (2017: EUR 238 million), per share by 16% to EUR 2.49 (2017: EUR 2.15).

Capital expenditures on property, plant and equipment increased by 13% to EUR 134 million (2017: EUR 119 million).

Net working capital amounted to EUR 464 million, 16.8% of revenue (2017: EUR 455 million, 16.8% respectively).

Free cash flow (before interest and tax) amounted to EUR 312 million (2017: EUR 310 million) and the free cash flow conversion ratio was 67.6% of EBITDA (2017: 73.4%).

Cash flow from operations amounted to EUR 427 million (2017: EUR 427 million).

Return on capital employed (ROCE) improved to 16.6% (2017: 16.2%).

Total equity remained at a solid level of 53.2% of the balance sheet total (2017: 52.0%).

Net debt amounted to EUR 586 million (2017: EUR 569 million) despite four bolt-on acquisitions.

The leverage ratio ended at 1.3 (2017: 1.3), well below the bank covenant < 3.0.

installation technology

installation technology develops and manufactures integrated piping systems and multilayer systems to distribute and control water or gas in heating, cooling, (drinking) water, gas and sprinkler systems in residential, commercial and industrial buildings and industrial installations

installation technology realised a good organic growth. After the global alignment of the integrated piping systems business, we accelerated the implementation of the long-term global plans.

The management and sales teams in North America, Asia and Europe were strengthened and many optimisation and efficiency initiatives were taken. Operational and pricing excellence networks were launched. Plans and actions were made to improve and optimise our distribution footprint in each region. We started the process to roll-out the Aalberts company passport worldwide.

Several new product lines were launched and additional investments were made globally in fast-growing product lines. We offered the integrated piping systems portfolio successfully to several key accounts worldwide, utilising our joint approach. The innovation roadmap is extended with digital and engineering initiatives to generate more added value and to optimise our (digital) specifications.

The multilayer systems made an excellent year with growth in both North America and Europe. Many initiatives were launched to further optimise our portfolio and grow the business. We invested a lot in the expansion of our innovation and sales teams during the year.

The focus on integrated piping and multilayer systems for niche applications works out well as we see market positions improving and our specialised business teams getting more traction.

revenue
(in EUR million)
1,119
-1%

EBITA
(in EUR million)
134
-3%

EBITA %
(% of revenue)
12.0
(2017: 12.2)

capex
(in EUR million)
38
-13%

material technology

material technology offers a unique combination of advanced heat and surface treatment technology and highly specialised manufacturing expertise making use of a global network of locations with excellent local knowledge and service material technology did well during the year, especially in Europe the volumes in our service locations were on a good level. In North America we realised a strong performance, activities related to the power generation end market faced challenging circumstances.

Our surface treatment activities were successfully aligned in Europe and investments in heat treatment were increased to exploit the many opportunities. In the automotive end market we see many opportunities to develop new, more complex, highly specified parts on a larger global scale for the electrification of vehicles and autonomous driving. Aalberts' worldwide presence, development and investment power are seen as a real advantage.

In the aerospace end market, we continued to execute our business and investment plan, combining technologies to our key accounts. The global operational excellence initiatives made good progress.

Several locations were further optimised, divested or integrated. Many ongoing initiatives are in progress to further improve the service locations network worldwide. We also strengthened the portfolio with three bolt-on acquisitions, adding corrosion protection technology in North America, reel-to-reel surface treatment technology in Europe and expanding our North American footprint for precision stamping.

revenue (in EUR million)	EBITA (in EUR million)	EBITA % (% of revenue)	capex (in EUR million)
747	102	13.7	59
+2%	+5%	(2017: 13.3)	+15%

climate technology

climate technology develops and manufactures complete hydronic flow control systems and efficiency solutions for heating, cooling, ventilation and drinking water. All designed for residential and commercial buildings

climate technology realised organic growth and further improved the market position with the launch of several new and upgraded product ranges including digital services.

The development of the business showed a mixed picture with good growth in several regions. Our project business faced some slowdown during summer period, order intake increased again during the last months of the year. The innovation roadmaps are making good progress with many new and upgraded product lines.

We integrated three locations in Spain, France and UK. The hydronic flow control activities will be expanded and optimised by investing in a new manufacturing and distribution facility in the Netherlands.

New digital business models are in development in France and the Netherlands, where we created digital smart labs to drive new business initiatives. The energy efficiency system improvements of installations in residential and commercial buildings are driven by data collection and monitoring. Adding services to our existing products and systems improves our added value.

We also face an increasing demand for pre-fabrication of modular installation systems. Speeding up innovation and engineering is key to strengthen our position in this business segment and to adapt to new market trends.

revenue
(in EUR million)

546
+4%

EBITA
(in EUR million)

65
+5%

EBITA %
(% of revenue)

12.0
(2017: 11.9)

capex
(in EUR million)

10
+46%

industrial technology

industrial technology engineers and manufactures custom made solutions for specific niche applications to regulate and control gasses and liquids under severe and critical conditions and co-develops and offers specialised manufacturing solutions

industrial technology had a good performance and order intake. The launch of upgraded product lines in fluid control for the automotive and general industries end markets was well received, especially the valve regulators for passenger cars showed good growth. The innovation roadmap, developed in close cooperation with our key accounts, includes several great new projects for the coming years. We strengthened our technology portfolio with the acquisition of VAF, a sensor and measurement specialist, based in the Netherlands.

The activities in engineered valves for the district energy & gas end markets were facing difficult circumstances, mainly due to less governmental projects in Eastern Europe and China. In North America we performed well.

Dispense technologies made a good year. We streamlined and consolidated our operations in North America, made an excellent year in Europe and started to align the locations globally.

Advanced mechatronics realised a great performance and business accelerated with our key accounts. Our pre-investments in people and equipment worked out well. We made additional investments in engineering, project management, key account management and capital equipment to facilitate the growth for the coming years. Our Aalberts strengths enable us to attract a lot of talented and experienced people.

revenue
(in EUR million)

409
+13%

EBITA
(in EUR million)

64
+18%

EBITA %
(% of revenue)

15.7
(2017: 15.0)

capex
(in EUR million)

25
+43%

sustainable entrepreneurship

our environmental impact

Since our inception in 1975, Aalberts is where technology matters and real progress can be made. Humanly, financially and environmentally. At Aalberts, we create mission-critical technologies that enhance our clients' businesses and keep our planet in good shape. Our technologies are used in eco-friendly buildings to reduce energy consumption, we extend the lifetime of materials to reduce raw material scarcity, we enable sustainable transportation to reduce the carbon footprint, we deliver clean water and sanitation to increase the health of people. With our products and services we make a serious sustainable impact on every-day life.

eco-friendly buildings

Global developments such as climate change and urbanisation reinforce the need for energy efficiency and water savings in buildings. Our hydronic flow control and thermal & sanitary efficiency technologies enable our end users to save energy and water which leads to eco-friendly buildings. We engineer and manufacture solutions for heating and cooling, enabling our customers and end users to perfectly balance systems to obtain maximum energy efficiency in buildings. We continuously bring innovations to improve the performance of cooling and heating systems, such as air and dirt separators and degassing automats.

ultra-compact, thermal battery for domestic hot water

Aalberts hydronic flow control developed a unique solution to empower the energy transition. FlexTherm Eco is a thermal charging station. It converts electricity directly into heat and stores it for the provision of hot water. FlexTherm Eco works on the basis of thermal storage in a so-called *Phase Change Material* (PCM). This material reacts to temperature changes by melting or crystallising, respectively absorbing or giving off energy. With its compact design and efficient operation, FlexTherm Eco fits in every home and is a very energy efficient appliance (energy label A+). The appliance is also clean and environmentally friendly because it does not burn any gases, does not contain any toxic substances, and is 100 percent recyclable. FlexTherm Eco renders the energy supply CO_2-neutral when used in combination with, for example, PV panels (for electricity) and a heat pump (for room heating).

We empower the energy transition by engineering technologies for district heating and solar energy, like universal mounting systems for solar panels and expansion vessels designed for solar powered installations. With our solutions we also enable customers to acquire eco-friendly energy labels for residential, commercial or industrial buildings, such as Leadership in Energy and Environmental Design (LEED) certificates in the United States.

sustainable transportation

Developments such as climate change and natural resource scarcity further push the transition towards sustainable transportation. We contribute to this transition by providing mission-critical technologies for the electrification of vehicles. From valve engineering for battery cooling to surface treatments for electrical car parts. With our CNG technologies for the automotive industry we empower a significant CO_2 reduction in transportation. Our maritime measurement systems enable ships to significantly decrease their fuel consumption and maintenance costs.

considerable savings of ship fuel consumption

Due to the increasing awareness of the impact of exhaust emissions on the environment, combined with the continued increases in fuel costs, there is great need for reduction in fuel consumption of ships. This has led to a high demand for accurate measurement systems to monitor the fuel consumption per engine. Real-time measurement and trend analysis of fuel consumption provide helpful information for shipowners, ship managers and crew about the influences of their actions on the consumed fuel. Aalberts fluid control offers various kinds of systems for the most accurate measurement and analysis of fuel consumption, for example the propeller thrust sensor which enables shipowners to save up to 20% on fuel consumption and CO_2 emissions.

lifetime extension materials

We extend the lifetime of metals by heat and surface treatments. We partner with leading (industrial) customers worldwide at the engineering and design phase to integrate our treatments in their manufacturing processes. This not only improves the product quality and reliability, it also has a severe positive impact on the entire lifetime of the manufactured parts (from service to disposal of metal). It goes without saying that we also apply such lifetime improvements to our products and innovations. Components that are both strong and light are of great importance in many markets, such as automotive and aerospace. We develop and produce high-tech, lightweight aluminium and magnesium components for these industries, combined with heat and surface treatments.

fine dust reduced by extremely wear-resistant brake disc

Aalberts surface treatment is involved in the production of a mirror-finished, corrosion-resistant and extremely wear-resistant surface for brake discs used in premium vehicles. The extreme wear resistance ensures life time extension of the brake discs and a significant reduction in brake dust.

clean water and sanitation

Clean water is vital for all living organisms on earth. We provide hundred million meters pipes including the connections for the hygienic transportation and distribution of drinking water and waste water.
These solutions ensure clean water and sanitation for millions of households worldwide. Our piping systems further focus on efficient water use. In addition we offer a wide range of technologies to protect and improve water quality, for example for filtration, purification and softening.

improvement of water quality at home

The water treatment unit Komeo guarantees high-quality water in the home. Komeo ensures that water is free from bacteria, pesticides and heavy materials while respecting the environment, since it uses soft technologies.

Aalberts and the SDGs

Aalberts recognises the relevance of the Sustainable Development Goals (SDGs) and the role we should take in order to achieve results. We contribute to the SDGs driving sustainable profitable growth by combining economic profitability with environmental and social progress. In 2018 we performed an analysis comparing the SDGs and sub targets with our technologies, products and services and selected the following six SDGs we have material impact on.

6 CLEAN WATER AND SANITATION

clean water and sanitation

ensuring protection, safety and efficiency of potable water installations as worldwide leader in piping systems and products

8 DECENT WORK AND ECONOMIC GROWTH

decent work and economic growth

nurturing personal growth in a safe working environment, enhancing our strong reputation and track record of sustainable, profitable growth

7 AFFORDABLE AND CLEAN ENERGY

affordable and clean energy

empowering the energy transition with energy-efficient technologies for ground-breaking industries and everyday life

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

industry, innovation and infrastructure

enhancing our clients' businesses and keeping our planet in good shape by continuous focus on long-term innovation and disciplined investments in R&D

most material SDGs

11 SUSTAINABLE CITIES AND COMMUNITIES

sustainable cities and communities

improving the quality of everyday life in cities with technologies for eco-friendly buildings, sustainable transportation and lifetime extension of materials

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

responsible consumption and production

consuming sustainably by reducing, reusing and recycling (raw) materials, water and energy in our own production processes and conducting our business with integrity

our own commitment

For us, engineering sustainable solutions for ground-breaking industries and everyday life, goes hand in hand with a sustainable way of doing business. To integrate responsible consumption and production into our own operations, we use a pragmatic sustainability framework covering health & safety, environment and integrity. We embrace SDG 8 regarding decent work and economic growth and SDG 12 regarding responsible consumption and production.

Ongoing interactions with the group companies enable us to share and learn and to lead by example. In order to level the difference in performance between our operations, this is discussed during executive team meetings and business team meetings. Environmental performance and health & safety are integrated in the operational excellence programme.

health & safety

safe place to work

At Aalberts everything revolves around safety. We are focused on preventing incidents that may be harmful to our employees and neighbouring communities.

We continuously invest in a culture in which people know what their own responsibility is to make Aalberts a safe place to work. There are health & safety training programmes in place for employees, such as toolbox safety sessions, training on use of personal protection equipment, emergency preparedness procedures and hazard identification. Safety trainings are part of the onboarding process of new employees and are regularly repeated. Our policy focuses on improving procedures at all group sites that do not perform at the group average according to the KPIs and targets set.

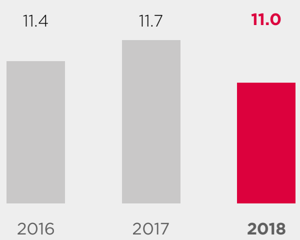
improvement safety culture

Focused health and safety communications on a daily, monthly and quarterly basis, to all employees and based on actual examples, accelerated the decrease of LTIs for Metalis France.

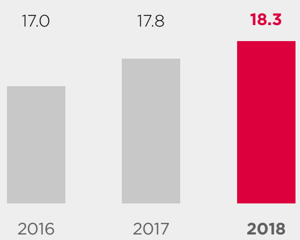
product safety and quality

Aalberts manufactures and delivers high quality products and services. Our group companies are ISO 9001 certified and have additional industry specific certifications, such as ISO 16949 for coatings or AS 9100 for the aerospace industry. Quality and product safety policies and statements are in place at

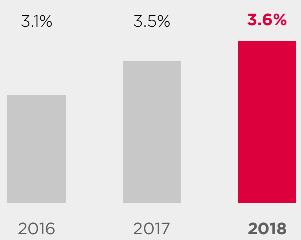
LTI frequency ratio



average days lost per LTI



absenteeism



local level. Our group companies manage risks from chemicals or hazardous substances and provide safety information on the substances in accordance with REACH and RoHS.

As of 2012, the Dodd-Frank Act in the United States (Section 1502) requires companies to publicly disclose their use of conflict minerals originating from the Democratic Republic of the Congo or neighbouring countries. These include minerals mined under conditions of armed conflict and human rights abuses. The four main minerals concerned are tin, tantalum, tungsten and gold. Where applicable, we monitor use of these materials in our supply chain to make sure that none of the parts or products we produce contains conflict minerals from countries of concern.

environment

responsible consumption and production

We consume sustainably by reducing, reusing and recycling (raw) materials, water and energy in our own production processes.

The Aalberts environmental management policy covers energy consumption, water consumption, CO_2 emissions and waste.

Efficient energy consumption and reduction of CO_2 emissions is a key performance indicator for all our sites and locations. It is our responsibility to work as energy efficient as possible, bringing both emissions and energy costs down to a minimum. All group companies execute initiatives to optimise resource usage, decrease energy consumption, minimise environmental impact and reduce cost. Most group companies have set up an integrated sustainable development or energy-efficiency plan, where applicable in accordance with the energy efficiency directive. As a result, substantial energy savings are realised at various group companies. CO_2 emissions are monitored and managed.

Another key performance indicator for all our sites and locations is efficient water consumption. We monitor and manage water use through the entire organisation. We generate as little waste as possible by conserving and recycling water and chemicals and substituting hazardous substances. We coordinate the sourcing of key raw materials at head office level. This enables us to ensure sustainable sourcing, to manage the efficient usage of raw materials and the effective recycling of scrap. At our production locations scrap, for example brass, is separated and disposed to a recycle company or, at some locations, melted down in our own foundries as raw material for reuse in our production process. Other waste is recycled as much as possible and in case it has no further internal use, disposed and processed externally.

Best practices, for example a closed circuit for cooling process water, are being shared within the businesses. Environmental plans have been developed which covers at least water and energy consumption and CO_2 emissions. Moreover, most of our group companies have their environmental management systems certified in accordance with the ISO 14001 standard and some companies also in accordance with the ISO 50001 standard. A few of our group companies conform their sustainable management behaviours to the ISO 26000 standard.

environmental performance indicators

Reducing also means taking responsibility for our own CO_2 footprint, energy and water use. We measure the energy and water consumption of our entire organisation as from 2017.

CO_2 neutral production location

At Aalberts we strive to reduce our CO_2 footprint and we operate waste handling programmes. Aalberts integrated piping systems has the first production location that is CO_2 neutral due to CO_2 reduction programmes and use of renewable energy. Extensive waste handling at that location results in 79% recycling of all materials used, at the production location as well as at the ancillary office location.

The graphs below represent our carbon emissions, (renewable) energy usage and water consumption.

We report our carbon emissions in line with the requirements set out by the GHG Protocol. Our carbon emissions cover our scope 1 and 2 emissions. Our carbon emissions and energy usage primarily consist of electricity and natural gas. In total, our energy consumption (electricity, natural gas, district heating and fuel) shows a 2% decrease and our carbon emissions also decreased 2% compared to 2017. Most of our water consumption is drinking water. The aggregate water consumption decreased by 4%. We started monitoring our renewable electricity consumption for the first time in 2018, which constitutes 10% of our total electricity consumption. For year on year comparison, we extracted the effects of acquisitions, divestments and changes to the measurement methodology.

integrity

Aalberts is committed to conducting its business with honesty and integrity, to follow the law and to make sure that each employee and business partner is treated respectfully.

Code of Conduct

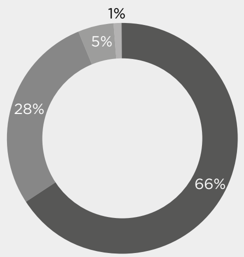
The company is proud of its excellent reputation as a responsible and reliable employer and business partner. The Aalberts Code of Conduct contains seven main business standards as rules of ethical conduct all Aalberts employees must follow, including business integrity.

The themes around business integrity concern strict compliance with fair competition laws, compliance with economic sanctions and export control regulations, compliance with anti-bribery laws, prevention of fraud, avoidance of conflict of interest, accurate accounting and reporting and compliance with insider trading rules. More information can be found at aalberts.com/code.

Our Speak up! procedure enables our employees to report violations of the Code of Conduct or other misconduct. All Speak up! notifications are promptly investigated, and the relevant cases are reported to the Management Board and Supervisory Board. The Code of Conduct is integrated into the employment agreements (or signed off by) all senior staff and management throughout the group. Guidance and the roll out of both the Code of Conduct and the Aalberts integrity academy are affected through our worldwide governance network. We check compliance with the Code of Conduct with regular governance visits by the governance lead, together with a governance contact person from the particular business.

carbon emissions

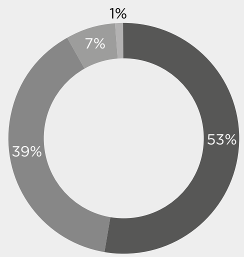
(total 310 Ktonnes)



- electricity **66%**
- gas **28%**
- district heating **5%**
- fuel **1%**

energy usage

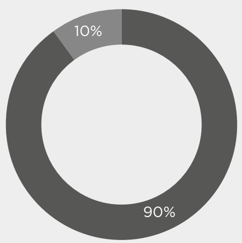
(total 3,865 TJ)



- total electricity **53%**
- gas **39%**
- district heating **7%**
- fuel **1%**

electricity consumption

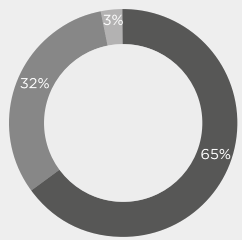
(total 2,051 TJ)



- electricity - grey **90%**
- electricity - renewable **10%**

water consumption

(total 1.9 million m^3)



- drinking water **65%**
- groundwater **32%**
- surface water **3%**

Aalberts integrity academy
The Aalberts integrity academy is an e-learning portal covering the Code of Conduct and specific business integrity matters, such as competition laws, anti-bribery laws and our Speak up! procedure. In 2018, we developed additional e-learning modules covering sanctions & export control and personal data protection & information security. The e-learning is mandatory for all management team members and other managerial staff, all our employees in sales, purchase, finance & controlling, human resources and all key-employees of other departments such as R&D, logistics, operations and customer service. Agents or commissioners that represent Aalberts are also obliged to participate in the e-learning.

anti-corruption and bribery
Our anti-corruption and bribery policy is included in our Code of Conduct and signed off by all our key employees. Doing business all over the world can expose Aalberts to local bribery and corruption risks, which can lead to substantial penalties and reputational harm. We performed a risk assessment within our organisation to assess which employees should be obliged to take the anti-corruption and bribery e-learning module of the Aalberts integrity academy. In this e-learning module employees are trained on our policies and risks per region. All employees designated to participate (except if not present due to long-term sickness, maternity leave etc.) completed this e-learning module. In addition, we regularly perform a risk assessment for the geographical areas and sectors we do business in. We qualify special care and high-risk countries and provide additional guidelines for doing business in these countries. Aalberts has enrolled several additional anti-corruption and bribery initiatives, including:

- an anti-corruption and bribery checklist containing red flags regarding, amongst others, agents and public officials;
- due diligence and third-party screening procedures;
- Speak up! procedure to report suspected irregularities;
- use of anti-corruption and export control clauses in contracts.

Because of our policies and initiatives, awareness of anti-corruption and bribery laws and policies is high. We keep focusing on expanding our awareness measures in key geographical areas and business sectors.

supply chain management
To further improve sustainability throughout the entire value chain we partner with suppliers who live by the same main principles as our Code of Conduct (safe place to work, respect human rights, treating employees with respect and work in an environmentally friendly way). When selecting suppliers, sustainability factors are considered, such as quality, health & safety and environmental performance. At some key suppliers we perform audits to check their standards. Our Supplier Code of Conduct includes the principles of the Code of Conduct and the principles of the UN Global Compact and the OECD. We contractually bind our suppliers to adhere to the principles of our Supplier Code of Conduct. In 2017 and 2018, most of our key suppliers have contractually agreed to adhere to these principles. In 2019 we will continue to improve the coverage on our supplier base.

human rights & labour relations
Aalberts' commitment to respect human rights, as defined by the United Nations in its Universal Declaration of Human Rights, is laid down in a formal human rights policy. We support the principles laid down in the OECD Guidelines for Multinational Enterprises and those in the ILO Declaration on Fundamental Principles and Rights at Work. Aalberts wants to build long-term, sustainable relationships with its employees and therefore strives to pay fair salaries and benefits. Freedom of association and the right to collective bargaining are self-evident, fundamental rights, which we respect. At Aalberts, the principle of free choice of employment is inviolable. It applies to every employee in every country we operate. In 2018 we received no evidence of any human rights violations or abuses via our Speak up! procedure.

respecting diversity
Aalberts recognises and respects the differences between individuals and understands that these differences can include ethnicity, religion, nationality, age, gender, sexual orientation, physical ability, experience and perspective. Recruiting and developing a diverse workforce gives us a wide range of perspectives and allows us to explore and adopt new ideas and innovations in technology. It also allows us to better understand and meet the needs of our diverse customers and communities. At year-end, 25.3% of our workforce is woman. In every area, we encourage female applicants to apply for open positions within the organisation.

human resource development

tax policy
A coherent and responsible tax policy is a key element of our sustainable way of doing business. Over the years, Aalberts has applied a conservative and cautious tax policy in line with OECD Guidelines. The business is leading in setting up international structures: we declare profits and we pay tax in the jurisdictions in which the economic activity occurs. Our tax planning strategy is based on the spirit of the law. This means that we do not seek to avoid taxes through 'artificial' structures in tax haven jurisdictions, we pay our fair share of tax in the countries in which we operate, we aim at filing accurate and timely tax returns and we strive to maintain strong and transparent relationships with the tax authorities in the various countries. As a result of our low tax risk appetite, the relationships with tax authorities are based on seeking open dialogs rather than seeking controversy.

The involvement of the Aalberts tax department is not limited to corporate income tax but extends to VAT, wage tax, social securities, dividend withholding tax, sales and use tax, real estate tax and other taxes that Aalberts entities around the globe are subject to. To monitor and control the tax positions per entity, the Aalberts tax department employs various internal tax controls. The effective tax rate is not a KPI of the tax department. The performance of the Aalberts tax department is assessed against compliance targets and adherence to tax regulations, such as compliance to transfer pricing documentation requirements and local tax return filing and payment obligations.

Depending on materiality and complexity of a specific matter or transaction, Aalberts will seek external tax advice from independent, third party tax professionals. If appropriate, approval from tax authorities will be obtained to gain upfront certainty about the application of specific tax legislation.

In 2016 we recruited Alexander Ruffing, who graduated with a master's in engineering, into our first group of trainees.

Alexander successfully completed the 18-month programme, spending time on five projects in three countries, while working for three companies across the group. He regularly presented his project results to an Executive Director, who also coached him during his time in the trainee programme. After completing the programme, Alexander was able to select his next move from a number of options. He chose to become a department manager, where he is responsible for 40 employees at one of our key plants.

Alexander: "The international trainee programme gave me the opportunity to gain a great deal of experience in projects in Europe and North America. The intense coaching and direct contact with management helped me to further develop my skills and find my way personally. I am very happy that I have taken on a new role as department manager, where I am responsible for 40 employees."

In order to prepare Alexander for his leadership role, he joined our leadership development programme for high potentials, successfully completing the programme's four modules in 2018.

Identifying, attracting, developing and retaining the right talent is the main focus of Aalberts human resource development (HRD) network. As well as optimising our recruitment and selection processes, we bring together people from across our business segments to help develop skills and to create networks. One of our key objectives is to showcase career and development opportunities across the entire group, enabling us to foster internal mobility and develop our mission-critical employees.

Aalberts leadership development programme

During the year we rolled out our global leadership programmes, which welcomed 80 participants from a variety of levels from across the group. We also set-up an internal levelling system, combined with an assessment methodology, to better align our approach to identifying high potentials and leaders. In 2018, this enabled us to design two programme types for groups of people with different learning requirements.

The programmes provided participants with a series of challenging trainings, based on their personal development needs and their leadership skills. The programmes also helped participants create internal networks, while sharing experiences and learning from one another. Feedback from participants and their managers has been very positive, and we are in the process of identifying candidates for the 2019 programmes.

Aalberts trainee programme

The first group of Aalberts trainees have successfully completed their global programme, and have stepped into key functions within the group. We will continue to provide them with coaching and development during their career at Aalberts, and look forward to them mentoring and coaching future trainees.

We have already hired the next group of seven trainees for 2019, and they are currently working on a variety of projects for Aalberts companies.

We have also created a global trainee network, which brings together new trainees and former trainees once a quarter, where they can learn and benefit from each other.

risk management

The nature of both our business and our strategy means that we face a number of inherent risks. We have carefully considered the type and extent of the inherent risks to the group, achieving its objectives. These risks also include long-term emerging risks related to disruptive technologies and increased cyber threats as well as increasing uncertainties that can change the (geo)political and economic landscape. The spread in businesses, technologies, end markets and geographical regions limits our dependence on specific markets or customers and strongly benefits our strategic objective to create sustainable and profitable growth as mentioned on page 13.

The next page shows an overview of the risks that we believe are most relevant to the achievement of our objectives. The sequence of risks does not reflect an order of importance, vulnerability or materiality. This overview is not exhaustive and should be considered in connection with forward-looking statements. There may be risks not yet known to us or which are currently not deemed to be material.

risk appetite and sensitivity

To achieve our objectives, we are willing to accept certain risks. Our risk appetite is derived from the nature of the risks and our strategy.

Risk appetite is different for the four risk areas:

- strategic: taking strategic risks is an inherent part of being an entrepreneur. We are prepared to take risks linked to increase game changing innovations, improve defined market positions and accelerate sustainable profitable growth.
- operational: sufficient talented people and additional investments in assets and IT systems are required to improve operations effectively and efficiently. We are willing to accept risks to deliver high added value for our customer, but our risk appetite can be described as cautious to averse. We especially aim to minimise risks to ensure a responsible and safe work environment and to protect our Aalberts brand.
- legal & regulatory: complying with applicable laws, regulations and the Code of Conduct is fundamental to our reputation. We have a zero-tolerance policy towards non-compliance or breaches in these areas. We are also risk averse with respect to potential product failures or quality issues.
- financial: maintaining a prudent financing strategy and ensuring consistent and timely reporting are needed to realise our objectives. We are cautious regarding risks related to our financial position and performance (e.g. currency, credit and interest rate risk) and risk averse to any risk that could jeopardise the integrity of our reporting.

Risk profile, scenarios and sensitivity of the company's results to external factors are assessed as part of our strategy update and annual forecasting process. In addition, sensitivity analysis are performed for the purpose of impairment testing and financial risk management. In general, vulnerability for individual external factors is low due to our balanced business portfolio and spread in end markets, geographical regions and customers.

risk management and control systems

Our businesses are responsible for maintaining an effective risk and control environment as part of day-to-day operations. This includes the risk management and control systems as set out above which are regularly updated to respond to the group's changing risk profile. The risk management and control systems as set out above do, however, not provide absolute assurance that errors, fraud, losses, or unlawful acts can be prevented. During 2018, no significant shortcomings were found in the internal risk management and control systems and no significant changes were made or scheduled for these systems, other than the further strengthening of the business management teams and the head office.

The internal risk management and control systems have been discussed with the Supervisory Board. These systems have been demonstrated to be adequate and they provide a reasonable degree of assurance that the financial reporting does not contain any material misstatements and that the risk management and control systems operated properly during 2018.

relevant developments

Worldwide geopolitical developments
Ongoing demand for talented managers and specialists
Increased customer and shareholder expectations
Climate change and raw material scarcity
Increased regulations for companies and activities
Globalisation and co-development
Internet of Things and increased connectivity

strategic

Wider use of Aalberts brand can increase vulnerability for reputational risk

Rapidly changing market dynamics can require fast adaptability and innovation

Disruptive technologies can impact current business models

Globalisation and co-development can lead to increased complexity and interdependency

Changes in (geo)political and economic landscape can impact business continuity

financial

Inconsistent or delayed reporting process can lead to inappropriate decision taking

Currency, credit and interest rate fluctuations can impact our financial performance

Deterioration of conditions in global economy can lead to loss of margin

Impact of volatile commodity prices and raw material scarcity

Aalberts strategy 2018-2022 'focused acceleration'

- remain focused
- improve technology positions
- improve profitability continuously
- use Aalberts strengths

operational

Insufficient number of managers with appropriate level of knowledge can slow down company growth

Growth can lead to inefficient processes and less control over organisation

Health and safety incidents can cause risks for employees and business interruption

IT security and cyber threats can harm our system availability, applications, data and information

Climate changes can damage assets and/or lead to disruption of business

legal & regulatory

Non-compliance with laws, regulations and Code of Conduct can lead to reputational damage

Unfair competition, violation of export control and sanction programmes can result in substantial penalties and reputational harm

Doing business globally can expose the company to local bribery and corruption risks

Undesired or unethical employee behaviour can lead to fraud related matters

Product failures and quality issues can result in liability proceedings

strategic actions

strategic actions	started	in progress	continuous improvement	done
execute operational excellence programme using Aalberts strengths			•	
execute long-term innovation roadmaps per niche technology		•		
invest in R&D and competence centres per niche technology			•	
enhance and expand Key Account Management with an integrated offering		•		
focus on defined niche technologies and end markets				•
accelerate initiatives by using our global Aalberts networks			•	
integrate (recent) acquisitions together with the business teams			•	
promote our culture ‘the Aalberts way’ and share best practices		•		

operational actions

operational actions	started	in progress	continuous improvement	done
define clear KPIs and responsibilities for operational excellence projects				•
promote and monitor operating effectiveness of key control principles			•	
strengthen internal audit activities on Executive Team and business team level		•		
speed up HRD strategies by using HRD network, driven at Executive Team level			•	
strengthen attractivity by focusing on attracting, retaining and developing talent		•		
invest in ‘safe place to work’ culture and manage KPIs set to improve			•	
optimise insurance policies for property, plant and equipment and climate risks			•	
set up IT leadership network, coordinated at Executive Team level		•		
realise more efficient processes and standardisation of IT systems per business		•		
define cyber security measures, including group-wide insurance policy		•		
drive projects via operational excellence programme to realise sustainable impact			•	

legal & regulatory actions

	started	in progress	continuous improvement	done
further strengthening governance network				•
organise ongoing meetings with worldwide governance network and share & learn			•	
launch additional e-learning courses on business integrity matters at Aalberts integrity academy				•
realise full awareness for Code of Conduct, authorisation chart and Speak up! procedure	•			
implement Supplier Code of Conduct to ensure business integrity and human rights			•	
embed high level of quality assurance in manufacturing processes		•		
maintain insurance facilities for (product) liability risks			•	
introduce smart contracting for purchase and sales			•	
implement central claim and proceedings handling process				•
simplify corporate legal structure and authorisations	•			

financial actions

	started	in progress	continuous improvement	done
strengthen organisation by installing key finance functions at business team level			•	
harmonise policies and procedures for internal, financial and IT controls			•	
train financial operational staff and exchange best practices		•		
risk reports assessments by group control and Management Board		•		
conduct internal audits, site visits and internal (risk) assessments			•	
establish worldwide internal audit network	•			
manage currency cash flow and consolidation of purchase and sales in specific currencies centrally				•
maintain healthy balance sheet ratios and investment power				•
realise dual sourcing where appropriate to reduce dependency				•

corporate governance

Aalberts Industries N.V. ("Aalberts") is incorporated and based in the Netherlands. As a result, our governance structure is based on the requirements of Dutch legislation and the company's articles of association, complemented by internal policies and procedures. Given the worldwide exposure of our businesses, we conduct our operations in accordance with internationally accepted principles of good governance. Good corporate governance, including focus on long-term value creation and culture, is a key component of 'the Aalberts way' of doing business and is embedded in our core values.

Aalberts endorses the principles of the Dutch Corporate Governance Code *(the "Code")*. Our corporate governance structure has been updated in accordance with the Code in the past years. In the general meeting of shareholders of Aalberts *(the "General Meeting")* on 18 April 2018 the updated Supervisory Board rules and the amended articles of association of Aalberts *(the "Articles of Association")* were approved and adopted.

Aalberts virtually applies all best practice provisions of the Code. To a limited extent, these have been adjusted to specific circumstances of Aalberts. As a result, the Management Board believes it meets the principles of 'comply or explain'. All the regulations pursuant to the Code and Dutch law concerning reporting and transparency of information applicable to Aalberts have been incorporated into the management report. Further guidance on how we comply with the provisions of the Code is available at aalberts.com/governance.

The deviations from the Code relate to the following subjects.

Management Board
The term of the current appointment of the CEO and CFO is unlimited. The Executive Directors have been appointed for a period of four years and Aalberts will also apply this four-year period for the appointment of new members of the Management Board. On dismissal, the existing employment conditions and regulations of the current directors are considered; this will not apply to new appointments.

General Meeting
The Articles of Association provide that the General Meeting can deprive the nomination of its binding nature with a resolution passed with a maximum majority permitted by law. Currently, this majority amounts to two-thirds of the votes cast. The deviation relates to the well-balanced allocation of the control and influence of the company's individual bodies as referred to in the paragraph 'decision making and anti-takeover measures'.

company secretary
Aalberts does not have a formal company secretary. This position is adequately fulfilled by the legal and governance function at head office level, in line with the lean and effective organisational structure.

appointment and dismissal of Management Board and Supervisory Board

The rules governing the appointment and dismissal of members of the Management Board and the Supervisory Board and amendment of the Articles of Association are provided in the Articles of Association. For the selection and nomination of a member of the Management Board and/or the Supervisory Board, Aalberts' diversity policy is considered. To summarise, members of the Management Board and the Supervisory Board are appointed by the General Meeting via a binding nomination for each vacancy to be drawn up by the holder(s) of priority shares, which is Stichting Prioriteit 'Aalberts Industries N.V.' *(the "Prioriteit")*. If the Prioriteit does not use its right to draw up a binding nomination, the General Meeting is free in its appointment. The General Meeting may deprive the nomination from its binding nature by a resolution adopted with at least two-thirds of the votes cast. Members of the Management Board and the Supervisory Board may be dismissed by the General Meeting. The General Meeting may resolve to amend the Articles of Association after prior approval of the Prioriteit.

powers Management Board

The general powers of the Management Board are those arising from legislation and regulations and are set out in the Articles of Association. The Management Board was authorised by the General Meeting held on 18 April 2018 to issue ordinary shares, to grant rights to subscribe for ordinary shares and to restrict or exclude pre-emptive rights of existing shareholders in the case of issuing ordinary shares, all subject to approval of the Prioriteit. The authorisation has been granted for 18 months and is valid for a maximum of 10% of the issued share capital at the time of issuing. The Management Board was further authorised by the General Meeting held on 18 April 2018 to repurchase the company's own ordinary shares up to a maximum of 10% of the issued share capital, other than for no consideration. The authorisation has been granted for 18 months.

decision making and anti-takeover measures

The duties and powers of the General Meeting, the Supervisory Board, the Management Board and the Prioriteit have been defined in such a way that a well-balanced allocation has been achieved with respect to the control and influence of the company's individual bodies. By doing so, Aalberts has ensured as much as possible that, when essential decisions are made, the interests of all company's stakeholders are considered and that the decision-making process can always be conducted in a prudent manner.
According to provision 4.2.6 of the Code, the company is required to provide an overview of its actual or potential anti-takeover measures and to indicate in what circumstances it is expected that these measures may be used. The priority shares held by the Prioriteit may be considered to constitute a form of anti-takeover measure. The powers of the Prioriteit have been described in this chapter and on page 127 under 'Special Controlling Rights under the Articles of Association'. The authority to make a binding nomination to the General Meeting concerning the appointment of members of the Management Board and Supervisory Board could be an essential instrument in the well-balanced decision-making process. Therefore, the deprivation of the binding character of the nomination is aligned with Dutch law instead of the Code.

Speak up!

The confidentiality advisor is responsible for dealing with violations of the Code of Conduct of Aalberts or other misconduct. Relevant cases are reported to the Management Board. If these would occur, material violations must be immediately reported by the Management Board to the Chairman of the Supervisory Board. Violations of the Code of Conduct can lead to immediate dismissal. Aalberts does not permit retaliation against employees who, in good faith, seek advice or report conduct that is not in line with the Code of Conduct. The use of the Speak up! procedure is educated to our key-employees by way of e-learning. Additional guidance on the use of the Speak up! form is given at aalberts.com/speakup in several languages to enable all our employees to make use of the procedure.

insider trading

Aalberts has an insider trading policy in place. The compliance officer keeps all permanent and deal specific insider lists up-to-date and informs all (new) insiders of their obligations based on applicable legislation. The full text of the insider trading policy can be found at aalberts.com/code.

bilateral contacts

The Company fully endorses the importance of a transparent and equal provision of information to its shareholders and other parties. In accordance with principle 4.2 of the Code, the Company therefore makes every effort to provide such parties equally and simultaneously with information relevant for shareholders, considering the exceptions provided by applicable law. This is laid down in Aalberts' policy on bilateral contacts with shareholders. The full text of the policy can be found at aalberts.com/governance.

Corporate Governance Statement

Our Corporate Governance Statement which must be disclosed pursuant to article 2a of the Decree additional requirements management reports *(Vaststellingsbesluit nadere voorschriften inhoud bestuursverslag)* is available at aalberts.com/governance and forms part of this management report.
The Management Board states that all information which must be disclosed pursuant to the Decree Article 10 Takeover Directive *(Besluit artikel 10 overnamerichtlijn)* is included in this management report, to the extent that it is applicable to Aalberts.

Management Board declaration

In accordance with provision 1.4.3 of the Code and Article 5:25c of the Financial Supervision Act, the Management Board declares that, to the best of its knowledge:

1. the management report as included in this report provides sufficient insights into any deficiencies in the effectiveness of Aalberts Industries N.V.'s *("Aalberts")* internal risk management and control systems;
2. the aforementioned systems provide reasonable assurance that Aalberts' financial reporting does not contain any material errors;
3. based on Aalberts' current status of affairs, it is justified that the financial reporting is prepared on a going concern basis;
4. the management report lists those material risks and uncertainties that are relevant to the expectation regarding Aalberts' continuity for the period of twelve months after the preparation of the management report;
5. the financial statements as included in this report provide a true and fair view of the assets, liabilities, financial position, and profit for the financial year of Aalberts and the group companies included in the consolidation; and
6. the management report as included in this report provides a true and fair view of the situation on the balance sheet date, the business development during the financial year of Aalberts, and of its affiliated group companies included in the financial statements. The management report describes the material risks to which Aalberts is exposed.

Utrecht, 25 February 2019

Wim Pelsma (CEO)
John Eijgendaal (CFO)
Oliver Jäger (Executive Director)
Arno Monincx (Executive Director)

financial calendar 2019-2020

20 March 2019	registration date for General Meeting
17 April 2019	General Meeting
23 April 2019	quotation ex-dividend
24 April 2019	record date for dividend
16 May 2019	paying out dividend
25 July 2019	publication interim results 1H2019
27 February 2020	publication full year results 2019
22 April 2020	General Meeting

good is never good enough

report of the Supervisory Board

report of the Supervisory Board

introduction by the Chairman

It is a privilege to chair the Supervisory Board of Aalberts. The company operates in many countries and provides employability to more than 16,000 employees.

With its strong development teams, Aalberts is investing substantially in the global environmental themes, such as climate change, urbanisation and the internet of things. By international cooperation between the teams, solutions can be offered which also generate solutions for the typical local conditions. In spite of the diversified development and production sites, each member of the Management Board controls a specific area and/or technology field. The reports to the Supervisory Board are valuable and very worthwhile.

The Supervisory Board takes the total range of stakeholders into account. Special attention was given to the broad range of (inter)national shareholders. The Management Board informs the Supervisory Board during the year on the composition of and the relations with shareholders.

The Supervisory Board would like to express its gratitude to the Management Board and all employees of Aalberts as well as to the employees of the companies acquired in 2018, for their dedication to the constantly growing results of Aalberts.

The Supervisory Board also wants to thank shareholders for their confidence in the company and its management.

Aalberts focuses on mission-critical technologies for ground-breaking industries and everyday life and will continue to do so.

The Supervisory Board will give full support to the in 2017 announced strategy: 'focused acceleration'!

Martin van Pernis

financial statements 2018

The 2018 financial statements have been prepared by the Management Board and have been signed by the Management Board and the Supervisory Board. Page 127 of the financial statements includes the independent auditor's report from the external auditor Deloitte Accountants B.V. (*"Deloitte Accountants"*). The Management Board will present the 2018 financial statements to the General Meeting on 17 April 2019.

The Supervisory Board advises the General Meeting to adopt these financial statements, including the proposed cash dividend of EUR 0.75 per share.

dividend policy

The dividend payment percentage is 30% of the net profit before amortisation. The payment of the dividend is entirely in cash.

composition of the Management Board

The Management Board consists of:

- Wim Pelsma (CEO)
- John Eijgendaal (CFO)
- Oliver Jäger (Executive Director)
- Arno Monincx (Executive Director)

composition of the Supervisory Board

The composition of the Supervisory Board is in accordance with the profile drawn up, which is published on the website of Aalberts. The composition of the Supervisory Board did not change in 2018.

Mr. M.C.J. (Martin) van Pernis second 4-year period ended by rotation and he was re-elected as member of the Supervisory Board for a two-year period. Mr. Van Pernis has made an outstanding contribution during the past period and took over the role of Chairman of the Supervisory Board in 2017. He has long experience both as a director and a supervisory director of (technical) companies operating internationally. For continuity of the chair of the Supervisory Board, and his long experience with and knowledge of Aalberts, he was re-elected for a two-year period.

In 2018, first steps were taken to allow for the nomination of a new member for the Supervisory Board.

composition of the Supervisory Board as of 18 April 2018

name	position	nationality	gender	year of birth	initial appointment	term expires
M.C.J. van Pernis	Chairman of the Supervisory Board Member of the Remuneration, Selection and Appointment Committee	Dutch	Male	1945	2010	2020
M.J. Oudeman	Member of the Supervisory Board Chairman of the Audit Committee	Dutch	Female	1958	2017	2021
P. Veenema	Member of the Supervisory Board Member of the Audit Committee	Dutch	Male	1955	2016	2020
J. van der Zouw	Member of the Supervisory Board Chairman of the Remuneration, Selection and Appointment Committee	Dutch	Male	1954	2015	2019

M.C.J. (Martin) van Pernis
Former President of Siemens Group in the Netherlands.
Other relevant positions:
Vice Chairman supervisory board Coolback Company
Vice Chairman supervisory board and Chairman NSR Committee ASM International
Chairman supervisory board CM Payments Breda
Member advisory board G4S Netherlands
Chairman supervisory board Sacon B.V.
Chairman Habitat for Humanity The Netherlands
Chairman supervisory board Rotterdams Philharmonisch Orkest

J. (Jan) van der Zouw
Former Chairman management board Eriks Group N.V.
Other relevant positions:
Chairman supervisory board Van Wijnen Holding N.V.
Member supervisory board Masterflex S.E.
Chairman of the supervisory board Lievense Holding B.V.

P. (Piet) Veenema
Former Chairman management board of Kendrion N.V.
Other relevant positions:
Chairman supervisory board N.V. Juva
Member supervisory board Van Wijnen Holding N.V.
Member supervisory board M&G Holding B.V.
Member advisory board Egeria Industrials A.G.

M.J. (Marjan) Oudeman
Former member of the executive committee Corus Group (nowadays Tata Steel Group) and the executive committee of AkzoNobel
Other relevant positions:
Member supervisory board SHV Holdings N.V.
Member supervisory board Solvay SA
Member of the board of directors of UPM-Kymmene Corporation
Member of the board of directors of Novolipetsk Steel
Member supervisory board Rijksmuseum
Chairman supervisory board Ronald McDonald Kinderfonds

diversity

The Supervisory Board recognises the importance of diversity within the Supervisory Board and the Management Board and believes that the business of Aalberts benefits from a wide range of skills and a variety of different backgrounds. A diverse composition of the Supervisory Board and the Management Board contributes to a well-balanced decision-making process and proper functioning of the boards. Diversity should not be limited to the Supervisory Board and the Management Board, but should extend to all areas of the Aalberts business.

In accordance with the Code, a diversity policy is in place for the composition of the Management Board and the Supervisory Board. The following diversity aspects have been identified as relevant for the Company and its business, considering the market in which the Company operates and the diversity of its customer base: (i) education/experience; (ii) nationality/cultural background; (iii) gender; and (iv) age.

The objectives of Aalberts' diversity policy are to maintain a sound balance of nationality and cultural background within the Supervisory Board and the Management Board, to increase the gender diversity within the Supervisory Board and the Management Board, such that at least 30% of the Supervisory Board and the Management Board will consist of women and at least 30% of the Supervisory Board and the Management Board will consist of men and to increase the age diversity within the Supervisory Board and the Management Board. The Supervisory Board currently consists of one woman and three men with different backgrounds.

Currently, the Management Board consists entirely of men. Three members of the Management Board are Dutch citizens and one member has German nationality. Aalberts will continue its efforts to increase gender diversity within the Management Board by taking into account gender diversity for recruitment, talent development, appointment to roles, attraction and retention of employees, mentoring and coaching programmes, succession planning, training and development.

Supervisory Board meeting and attendance

Supervisory Board member	Supervisory Board	Audit Committee
M.C.J. van Pernis	100%	n/a
J. van der Zouw	67%	n/a
P. Veenema	100%	100%
M.J. Oudeman	83%	100%

The Supervisory Board convened on six occasions, no members were frequently absent. Since the Supervisory Board wants to monitor the company activities closely from its supervisory position, these meetings are regularly held at one or more business locations. In the year under review, these were installation technology in Belgium, material technology in Germany and industrial technology in the Netherlands.

The Chairman of the Supervisory Board regularly met with the CEO to discuss the business progress, implementation of the strategy and the composition of the Management Board, as well as to prepare for the meetings with the Supervisory Board.

the work of the Supervisory Board

The topics discussed with the Management Board include overall business progress, financial and operational developments, interim results and annual financial statements, and the dividend policy. The strategy 'focused acceleration' for the period from 2018 to 2022 was further discussed and evaluated, with a special focus on its four core elements: remain focused, improve technology positions, improve profitability continuously and use Aalberts strengths. The vision of the Management Board on long-term value creation is further executed by motivated Aalberts' business teams that drive five-year business plans, long-term innovation roadmaps and integrate bolt-on acquisitions. The Supervisory Board refers to page 13 for a more detailed explanation of the focused acceleration strategy. The Supervisory Board monitors the implementation of the strategy and discussed with the Management Board the realisation of long-term value creation and the principal risks associated with the strategy. Business risks, risk appetite, governance risks, internal risk management and control systems were addressed in these discussions. The organisational structure, including the Aalberts networks, developments in the human resources development policy, compliance with laws and regulations and sustainability have also been extensively discussed.

The Chairman of the Supervisory Board meets the colleagues of the other AEX listed companies several times a year. Items discussed are a.o. the Dutch Corporate Governance Code, the climate initiatives and the remuneration policy.

The Supervisory Board is pleased to note that Aalberts has been able to continue the upward trend of previous years in 2018. Encouraging progress was recorded in the year under review with respect to cost control and working capital management, revenue, profit and added value. The Supervisory Board approved the strategy and objectives to be achieved for 2019.

corporate governance

In view of the Code, the Supervisory Board has reviewed and discussed the corporate governance structure of Aalberts with the Management Board. The governance structure was updated in 2017 in line with the Code, Dutch corporate law and market practice and is still effective. The Supervisory Board refers to page 42 for a more detailed explanation of the corporate governance structure of Aalberts.

The Supervisory Board and the Management Board have specifically discussed the further implementation of the Code of Conduct, monitoring of the effectiveness and compliance with the Code of Conduct and violations of the Code of Conduct reported via the Speak up! procedure. In addition, the e-learning programme, governance regulations and processes of Aalberts within the entire organisation, including the training and monitoring thereof have been discussed.

Furthermore, there was specific attention for the culture and values of Aalberts and 'the Aalberts way', the implementation thereof throughout the entire organisation and how these values can contribute to the long-term value creation of Aalberts. The Management Board reported to the Supervisory Board on the updated sustainability approach of Aalberts, including the connection to the Sustainable Development Goals and the more structured and stringent approach towards health and safety in the operational excellence network.

The Supervisory Board supports the more stringent approach to possible governance risks at group companies combined with a further strengthening of governance at group level and throughout the business. The general legal counsel discussed governance risk management and the work schedule of the legal and governance department with the Supervisory Board. The work schedule of the internal audit function has been approved by the Supervisory Board.

independence

All members of the Supervisory Board are fully independent. In addition, none of the members holds shares in the company. In the Supervisory Board's opinion, the composition of the Supervisory Board is such that the members can act critically and independently from each other and the Management Board, as stipulated in the Code and the Supervisory Board rules. This means that the tasks of the Supervisory Board as laid down by law and by the Articles of Association are being fulfilled, including providing the Management Board with solicited and unsolicited advice and support.

no conflict of interests

In 2018, there were no conflicts of interests between the company and members of the Management Board or members of the Supervisory Board. Nor were there any transactions of material significance in 2018 between the company and natural persons or legal entities that hold at least 10% of the shares in the company.

committees

There are two committees of the Supervisory Board: the Audit Committee and the Remuneration, Selection and Appointment Committee.

Audit Committee

The Audit Committee aids and advises the Supervisory Board in its responsibility to supervise the integrity and quality of the Aalberts' financial reporting and the effectiveness of Aalberts' internal risk management and control systems. The Audit Committee consists of Marjan Oudeman (chairman) and Piet Veenema, who both qualify as financial and risk experts.

The role of the Audit Committee is described in its charter, which is part of the Supervisory Board rules available at aalberts.com/governance. During the year, the Audit Committee met six times with the CFO and the director internal audit and in three meetings the external auditor Deloitte Accountants was present. The Audit Committee also met with the external auditor outside the Management Board's presence. Topics discussed during Audit Committee meetings include: the company's financial performance, the company's financial reporting including the annual report, the financial statements including application of accounting principles, the company's internal risk management systems, the internal audit plan, the internal audits performed and the essence of the audit results. Other agenda items were the company's tax policy, the treasury and funding strategy, IT, cybersecurity and fraud risks, the Speak up! procedures and material claims and liabilities. For these topics, relevant experts from the company participated in the meetings.

The Audit Committee discussed the external auditor's performance with the Management Board without the presence of Deloitte Accountants. The Audit Committee reported to the Supervisory Board on its deliberations and findings which were discussed by the Supervisory Board.

Remuneration, Selection and Appointment Committee

The Remuneration, Selection and Appointment Committee (*"RemCo"*) aids and advises the Supervisory Board on matters relating to the selection and appointment of the members of the Management Board and Supervisory Board. The RemCo further monitors and evaluates the remuneration policy for the Management Board. The RemCo consists of Jan van der Zouw (chairman) and Martin van Pernis.

The role of the RemCo is described in its charter, which is part of the Supervisory Board rules available at aalberts.com/governance. In 2018, all items concerning nomination, remuneration and selection, such as the remuneration policy and a search for an additional member of the Supervisory Board, were discussed in the full Supervisory Board meetings.

appraisal of performance by the Management Board and the Supervisory Board
During a private meeting, the Supervisory Board evaluated and assessed its own performance, the performance of its committees and the individual members.

The evaluation of the Supervisory Board and its individual members took place by way of a special meeting. As preparation for the meeting a self-assessment questionnaire was used. Based on the filled out questionnaires, each of the members were evaluated as well as the functioning of the total Supervisory Board and its committees. Also, the communication with the management and the question of succession were discussed. In addition, the Chairman held interviews with the Supervisory Board's individual members.

Outside the Management Board's presence, the Supervisory Board evaluated and assessed the performance of the Management Board and the individual members. In the opinion of the Supervisory Board, the Management Board performed its duties in 2018 in an excellent way.

The evaluation of the Management Board and its individual members took place by way of individual meetings with the Management Board as a total and with the individual members. Themes as communication with the Supervisory Board, individual targets, cooperation within the Management Board, strategy towards stakeholders, as well as potential company risks were discussed.

external auditor
Deloitte Accountants was appointed external auditor for the reporting year 2019 at the General Meeting on 18 April 2018. In the discussion of the annual financial statements, the Supervisory Board was informed by the external auditor, Deloitte Accountants. Topics discussed included the 2018 audit plan, the management letter, early warning reports and the report to the Audit Committee, Supervisory Board and Management Board.

remuneration policy
The Supervisory Board has set the remuneration of the Management Board members in accordance with the Articles of Association. The remuneration of the individual Management Board members, including share-based remuneration, is in accordance with the remuneration policy approved by the General Meeting. The Supervisory Board took note of the individual Management Board members' views with regard to the amount and structure of their own remuneration. Within the framework of the Code and the best practice principles contained therein, the Supervisory Board has implemented the remuneration policy in line with the strategy, long-term value creation objectives, risks and (non)financial objectives of Aalberts.

Scenario analysis have been performed in conformity with the Code and have been taken into account by setting the remuneration. The aim is to achieve a good balance between fixed and variable remuneration and short-term and long-term remuneration. More information is provided on page 123 of the notes to the financial statements.

objective
The objective of the remuneration policy is to recruit, motivate and retain qualified and experienced directors with industry experience for the Management Board. The remuneration structure for the Management Board is aimed at the best possible balance between the company's short-term results and its long-term goals.
The total remuneration of the Management Board members comprises the following components:
- a fixed base salary;
- variable remuneration in cash for achievements in the short-term (one year);
- variable remuneration in shares for achievements in the long-term (three years); and
- a pension plan.

base salary
Once a year, the Supervisory Board determines whether, and if so, to what extent the base salary will be adjusted, taking into account developments in the market, the reward structures of peer group companies, the results of Aalberts and the pay ratio within the Aalberts group.

pay ratio
Aalberts' personnel expenses are specified in note 21 of the financial statements and include wages and salaries, social security charges, defined benefit plans, defined contribution plans and other expenses related to employees. For the calculation of the average employee compensation, the Performance Share Plan and the total remuneration of the members of the Management Board are excluded from these expenses.

The remuneration of the Management Board members is disclosed in note 34.8 of the financial statements. For the calculation of the pay ratio as prescribed by the Code, the average annual compensation for the Management Board members is based on salary, pension contribution and variable remuneration (short-term) and excludes the Performance Share Plan.

As a result, the pay ratio in 2018 was 21.5 (2017: 21.1).

variable remuneration (short-term)
The variable remuneration is an important component of the remuneration package. Management Board members can be awarded an annual bonus for the achievement of predetermined targets, which include earnings per share before amortisation, free cash flow, organic revenue growth and individual (non-financial) performance criteria. The Supervisory Board sets these targets at the beginning of each financial year. The detailed criteria are not disclosed, since the company is of the opinion that the disclosure of the (relevant) performance criteria is undesirable from the perspective of the competitive and market positioning of the company. The variable remuneration package is based on performance to an important extent and, if the targets are achieved, can add a maximum of 75% to the base salary.

In the context of the Dutch Claw Back Act, the Supervisory Board saw no reason to change the remuneration policy or to claim back bonuses paid. There are no specific arrangements for early termination of employment and resignation of the members of the Management Board.

variable remuneration (long-term)
The remuneration in the long-term for performance of Management Board members and certain members of Management, selected by the Supervisory Board, is in the form of a conditional awarding of shares. The long-term performance criteria focus on the strategic plan and the creation of value over a period of three years, after which the Supervisory Board assesses the extent to which the performance targets have been achieved and decides how many shares will finally be awarded.

The performance targets contribute to the realisation of the objective of long-term value creation. Shares awarded conditionally must be held for at least five years or until the end of the employment contract, if this is sooner. This does not apply if it can be demonstrated to the compliance officer that the shares were sold to pay tax and social contribution obligations related to the awarding of these shares.

pension plan
The Management Board members participate in a pension plan (average pay or defined contribution pension plan). Management Board members are responsible for payment of one-third of the contribution.

update
Each year, the Supervisory Board reviews the Management Board remuneration policy and assesses its alignment with the market in more detail. Any update of this policy will be submitted to the General Meeting.

Utrecht, 25 February 2019

Martin van Pernis (Chairman)
Marjan Oudeman
Piet Veenema
Jan van der Zouw

how 'brilliant' is made

financial statements

1. Consolidated balance sheet (before profit appropriation)

in EUR million	Notes	31-12-2018	31-12-2017
ASSETS			
Intangible assets	10	1,234.8	1,126.6
Property, plant and equipment	11	818.2	774.9
Deferred income tax assets	17	15.1	14.7
Total non-current assets		**2,068.1**	**1,916.2**
Inventories	12	613.7	556.8
Trade receivables	13	342.9	353.1
Income tax receivables		13.1	3.5
Other current assets	14	56.4	37.3
Cash and cash equivalents	16	53.7	43.5
Total current assets		**1,079.8**	**994.2**
TOTAL ASSETS		**3,147.9**	**2,910.4**
EQUITY AND LIABILITIES			
Shareholders' equity	4	1,651.6	1,490.3
Non-controlling interests	4	24.2	22.4
Total equity		**1,675.8**	**1,512.7**
Non-current borrowings	16	459.5	414.1
Employee benefit plans	18	69.6	71.6
Deferred income tax liabilities	17	117.0	110.4
Other provisions and non-current liabilities	18	27.9	44.2
Total non-current liabilities		**674.0**	**640.3**
Current borrowings	16	52.2	63.2
Current portion of non-current borrowings	16	128.0	134.8
Trade and other payables	19	417.2	378.4
Income tax payables		39.2	40.3
Other current liabilities	20	161.5	140.7
Total current liabilities		**798.1**	**757.4**
TOTAL EQUITY AND LIABILITIES		**3,147.9**	**2,910.4**

2. Consolidated income statement

in EUR million	Notes	2018	2017
REVENUE	9	**2,758.9**	**2,694.0**
Raw materials and work subcontracted		(1,033.3)	(1,015.6)
Personnel expenses	21	(816.5)	(781.7)
Depreciation of property, plant and equipment	11	(95.9)	(86.9)
Amortisation of intangible assets	10	(36.7)	(33.7)
Other operating expenses	22	(447.7)	(474.3)
Total operating expenses		**(2,430.1)**	**(2,392.2)**
OPERATING PROFIT		**328.8**	**301.8**
Net interest expense	23	(16.7)	(16.7)
Foreign currency exchange results	23	(2.7)	(5.3)
Derivative financial instruments	23	(0.7)	(0.3)
Unwinding discounts on provisions	23	(0.8)	(1.3)
Net interest expense on employee benefit plans	18/23	(1.5)	(1.8)
Net finance cost		**(22.4)**	**(25.4)**
PROFIT BEFORE INCOME TAX		**306.4**	**276.4**
Income tax expense	24	(65.6)	(68.0)
PROFIT AFTER INCOME TAX		**240.8**	**208.4**
Attributable to:			
Shareholders	4	238.2	204.5
Non-controlling interests	4	2.6	3.9
Earnings per share (in EUR)			
Basic and Diluted	25	2.15	1.85
Earnings per share before amortisation (in EUR)			
Basic	25	2.49	2.15
Diluted	25	2.48	2.15

3. Consolidated statement of comprehensive income

in EUR million	2018	2017
Profit for the period	**240.8**	**208.4**
Other comprehensive income:		
Remeasurements of employee benefit obligations	(1.2)	8.9
Income tax effect on remeasurements of employee benefit obligations	0.2	(1.6)
Other income tax effects	(0.4)	–
Other comprehensive income that will not be reclassified to profit or loss	**(1.4)**	**7.3**
Currency translation differences	0.9	(34.5)
Fair value changes derivative financial instruments	(1.6)	2.9
Income tax effect	0.4	(0.7)
Other comprehensive income that may subsequently be reclassified to profit or loss	**(0.3)**	**(32.3)**
Total other comprehensive income for the year, net of income tax	**(1.7)**	**(25.0)**
TOTAL COMPREHENSIVE INCOME/(LOSS)	**239.1**	**183.4**
Attributable to:		
Shareholders	237.2	178.9
Non-controlling interests	1.9	4.5

4. Consolidated statement of changes in equity

in EUR million	Issued and paid-up share capital	Share premium account	Other reserves	Currency translation and hedging reserve	Retained earnings	**Share-holders' equity**	Non-controlling interests	**Total equity**
AS AT 1 JANUARY 2017	**27.6**	**200.8**	**974.3**	**(12.2)**	**182.6**	**1,373.1**	**18.0**	**1,391.1**
Dividend 2016	–	–	–	–	(64.1)	**(64.1)**	(0.1)	**(64.2)**
Addition to other reserves	–	–	118.5	–	(118.5)	**–**	–	**–**
Share based payments	–	–	2.4	–	–	**2.4**	–	**2.4**
Profit for the period	–	–	–	–	204.5	**204.5**	3.9	**208.4**
Other comprehensive income for the year, net of income tax	–	–	7.3	(32.9)	–	**(25.6)**	0.6	**(25.0)**
AS AT 31 DECEMBER 2017	**27.6**	**200.8**	**1,102.5**	**(45.1)**	**204.5**	**1,490.3**	**22.4**	**1,512.7**
AS AT 1 JANUARY 2018	**27.6**	**200.8**	**1,102.5**	**(45.1)**	**204.5**	**1,490.3**	**22.4**	**1,512.7**
Dividend 2017	–	–	–	–	(71.9)	**(71.9)**	(0.1)	**(72.0)**
Addition to other reserves	–	–	132.6	–	(132.6)	**–**	–	**–**
Share based payments	–	–	(4.0)	–	–	**(4.0)**	–	**(4.0)**
Profit for the period	–	–	–	–	238.2	**238.2**	2.6	**240.8**
Other comprehensive income for the year, net of income tax	–	–	(1.4)	0.4	–	**(1.0)**	(0.7)	**(1.7)**
AS AT 31 DECEMBER 2018	**27.6**	**200.8**	**1,229.7**	**(44.7)**	**238.2**	**1,651.6**	**24.2**	**1,675.8**

5. Consolidated cash flow statement

in EUR million	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit	2	328.8	301.8
Adjustments for:			
Depreciation of property, plant and equipment	11	95.9	86.9
Amortisation of intangible assets	10	36.7	33.7
Result on sale of equipment		1.1	(1.1)
Changes in provisions		(21.6)	(1.9)
Changes in inventories		(66.9)	(52.4)
Changes in trade and other receivables		14.3	(11.7)
Changes in trade and other payables		38.3	71.7
Changes in working capital		**(14.3)**	**7.6**
CASH FLOW FROM OPERATIONS		**426.6**	**427.0**
Finance cost paid		(19.2)	(22.7)
Income taxes paid		(85.6)	(68.1)
NET CASH GENERATED BY OPERATING ACTIVITIES		**321.8**	**336.2**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	28	(165.8)	(41.0)
Disposal of subsidiaries	28	34.3	-
Purchase of property, plant and equipment	11	(128.1)	(111.2)
Purchase of intangible assets	10	(8.0)	(9.2)
Proceeds from sale of equipment		21.6	3.4
NET CASH GENERATED BY INVESTING ACTIVITIES		**(246.0)**	**(158.0)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from non-current borrowings	16	169.6	144.5
Repayment of non-current borrowings	16	(139.4)	(130.0)
Dividends paid	4	(71.9)	(64.1)
Settlement of share based payment awards and other	15.3	(7.1)	(0.1)
NET CASH GENERATED BY FINANCING ACTIVITIES		**(48.8)**	**(49.7)**
NET INCREASE/(DECREASE) IN CASH AND CURRENT BORROWINGS		**27.0**	**128.5**

in EUR million	Notes	2018	2017
Cash and current borrowings at beginning of period		(19.7)	(161.6)
Net increase/(decrease) in cash and current borrowings		27.0	128.5
Currency translation differences on cash and current borrowings		(5.8)	13.4
CASH AND CURRENT BORROWINGS AS AT END OF PERIOD		**1.5**	**(19.7)**
Cash		53.7	43.5
Current borrowings (excluding current portion of non-current borrowings)		(52.2)	(63.2)
CASH AND CURRENT BORROWINGS AS AT END OF PERIOD	16	**1.5**	**(19.7)**

6. General information

Aalberts Industries N.V. ("Aalberts") is a technology company and builds leading niche market positions in defined businesses focusing on ten end markets. Aalberts has been listed on Euronext Amsterdam (ticker symbol: AALB.AS) since March 1987 and is included in the AEX index since 23 March 2015. The head office is based in the Netherlands. Aalberts operates approximately 70 business locations and 80 service locations with activities in over 50 countries, divided in the activities Installation Technology, Material Technology, Climate Technology and Industrial Technology.

Installation Technology develops and manufactures integrated piping systems and multilayer systems to distribute and control water or gas in heating, cooling, (drinking) water, gas and sprinkler systems in residential, commercial and industrial buildings and industrial installations.

Material Technology offers a unique combination of advanced heat and surface treatment technology and highly specialised manufacturing expertise, making use of a global network of locations with local knowledge and service.

Climate Technology develops and manufactures complete hydronic & air flow control systems and treatment solutions for heating, cooling, ventilation and drinking water. All designed for residential and commercial buildings.

Industrial Technology engineers and manufactures custom made solutions for specific niche applications to regulate and control gasses and liquids under severe and critical conditions and co-develops and offers specialised manufacturing technologies.

Aalberts has been incorporated and domiciled in Utrecht, the Netherlands. The consolidated IFRS financial statements of the Company for the year ended 31 December 2018 comprise the company and its subsidiaries ('the Group'). The financial statements were signed and authorized for issue by the Management Board and Supervisory Board on 25 February 2019. The Management Board released the full-year results on 26 February 2019. The adoption of the financial statements and the dividend are reserved for the shareholders in the General Meeting on 17 April 2019.

7. Summary of significant accounting policies

7.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 2 Book 9 of the Dutch Civil Code.

7.2 Basis for preparation

The Group has prepared the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 2 Book 9 of the Dutch Civil Code.

The financial statements are presented in EUR million, unless otherwise stated. The financial statements are prepared on the historical cost basis except derivative financial instruments which are stated at their fair value. Employee benefits are based on the projected unit credit method. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 7.30.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

This is the first set of consolidated financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. Changes to new and revised international financial reporting standards are described in note 7.3.

7.3 Application of new and revised international financial reporting standards

The following standards have become effective or have been adopted by the Group for the first time for the financial year 2018.

IFRS	Topic	Effective date
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018

The Group has initially applied IFRS 9 and IFRS 15 as from 1 January 2018. Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements should have been restated to reflect the requirements of the new standards. However, the Group has assessed that the effect of these standards is not material on the Group's financial statements and therefore no restatements of comparative information have been made.

IFRS 9

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS 9 introduced new requirements for:
(a) classification and measurement of financial assets;
(b) impairment of financial assets;
(c) classification and measurement of financial liabilities; and
(d) general hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

(a) Classification and measurement of financial assets

The Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Group management reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had no impact on the Group's financial assets with regard to their classification and measurement. The financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payment of principal and interest on the principal amount outstanding.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI ('Other Comprehensive Income'). Previously, the Group's approach was to include the impairment of trade receivables in other expenses. The Group continues with this approach based on materiality considerations.

There were no financial assets which the Group had previously designated as at FVTPL ('Fair Value Through Profit and Loss') under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets which the Group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

(b) Impairment of financial assets

IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on trade receivables. In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables which is applied by the Group.
The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 does not result in an additional allowance for impairment of the financial assets. In general, the credit losses in the past years and expected credit losses are limited also due to the application of credit insurance. We refer to note 8.1.2 and note 13 for further details.

(c) Classification and measurement of financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

(d) General hedge accounting

The Group has decided to adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assess hedge effectiveness.

In accordance with IFRS 9's transition provisions for hedge accounting, the Group has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018. The Group's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 January 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Group has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

Consistent with prior periods, when a forward contract is used in a cash flow hedge or fair value hedge relationship, the Group has designated the change in fair value of the entire forward contract, i.e. including the forward element, as the hedging instrument.

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

IFRS 15

In the current year, the Group has applied IFRS 15 *Revenue from Contracts with Customers* (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. In addition, more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 15 in accordance with the fully retrospective transitional approach, without using practical expedients for completed or modified contracts. The Group uses the expedient to allow both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and the non-disclosure of an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application.

The key principle is that revenue should be recognised in a manner that reflects the pattern of transfer of goods and services to customers. The amount recognised should reflect the amount the Group expects to receive in exchange for those goods and services.

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied. A performance obligation is satisfied when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Determining the timing of the transfer of control requires judgement.

The Group's accounting policies for its revenue streams are disclosed in detail in note 7.22. The application of IFRS 15 has no significant impact on the financial position and/or financial performance of the Group. As a result thereof, the adoption of this new accounting standard has no material impact on the disclosures or on the amounts reported in these financial statements.

The following changes in the IFRS standards are effective from 1 January 2018, but these changes do not have a material effect on the total equity attributable to shareholders or results of the Group:

IFRS	Topic	Effective date
Amendments to IFRS 2	Classification and Measurement of Share based Payment Transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
Amendments to IAS 40	Transfers of Investment Property	1 January 2018
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018
Amendments to IAS 28	Investments in Associates and Joint Ventures	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018

In addition, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS	Topic	Effective date
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 cycle	1 January 2019
Amendments to IAS 19	Plan Amendment, Curtailment and Settlement	1 January 2019
Amendments to IFRS 10	Consolidated Financial Statements	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

The adoption of these changes do not have a material effect on the total equity attributable to shareholders or results of the Group in future periods, except as for IFRS 16.

IFRS 16

The Group is required to adopt IFRS 16 *Leases* from 1 January 2019. The Group has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impact of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance leases or operational leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases. No significant impact is expected for the Group's finance leases. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Group will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowings, will be presented in a separate line for lease liabilities. Based on an analysis of the Group's finance leases as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the Group have assessed that the impact of this change will not have an impact on the amounts recognised in the Group's consolidated financial statements.

- **Leases in which the Group is a lessee**
  The Group will recognise new assets and liabilities for its operational leases of land and buildings, company cars and other office equipment. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.
  Previously, the Group recognised operational lease expenses on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expenses recognised.

  The most significant change in the Group's accounting policies as a consequence of adopting IFRS 16 will be the recognition of right-of-use assets and lease liabilities for our operating leases. The Group has selected the modified retrospective approach and will therefore not restate prior years presented in the Group's financial statements upon adoption in 2019.

  Based on the information currently available, the Group estimates that it will recognise additional right-of-use assets and lease liabilities for operating leases within a range of EUR 120 million and 140 million as at 1 January 2019. However, the financial covenants shall be calculated and tested on the basis of frozen IFRS (i.e. IFRS as applied in respect of the audited 2017 financial statements) and will therefore not be impacted.

  Further, we consider that the impact as a result of the shift between cash flows from operating activities and cash flows from financing activities as not that significant to mention a number in our 2018 disclosure (also taken into account the fact that the impact on cash flows will change over time due to new contracts or contracts which will end).

- **Leases in which the Group is a lessor**
  The Group expects no significant impact for other leases in which the Group is a lessor.

As mentioned, the Group applies IFRS 16 using the modified retrospective approach. As a lessee, the Group elects to use a number of practical expedients. As a lessor, it does not make any adjustments on transition. Under this approach, the Group does not restate its comparative figures but recognises the cumulative effect of adopting IFRS 16 as an adjustment to equity at the beginning of the current period.

However, the cumulative effect on equity at the date of initial application will be limited since we apply the option two under the modified retrospective approach and consider that the number of prepaid/accrued payments is not significant based on the results of the review of the completed self-assessment questionnaires and spot checks performed.

Further, the Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

7.4 Basis for consolidation

7.4.1 Subsidiaries

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company and its subsidiaries.

Control is achieved when the company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the company gains control until the date when the company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

7.4.2 Business combinations

Business combinations are accounted for using the acquisition method. This means that at the time of acquisition the identifiable assets and liabilities of the acquiree are included at their fair value, considering any contingent liabilities, indemnification assets, reacquired rights and the settlement of existing clients with the acquired Group company. The purchase consideration is set at the payment transferred and consists of the fair value of all assets transferred, obligations entered into and shares issued in order to obtain control of the acquired entity (including an estimate of the conditional purchase consideration).

Any contingent consideration payable is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

All identifiable intangible assets of the acquired company are recorded at fair value. Intangible assets are separately identified and valued. An asset is identifiable when it either arises from contractual or other legal rights or if it is separable. An asset is separable if it can be sold on its own or with other assets. The transferred payment is allocated across the fair value of all assets and liabilities with any residual allocated to goodwill. Excess of the acquirer's interest in the net fair value of the acquired identifiable assets over the fair value of the payment is recognised immediately in the statement of comprehensive income.

Transaction costs incurred by the acquirer in relation to the business combination are not included in the cost price of the business combination but once incurred are recognised as a charge in the income statement unless they refer to the issue of debt instruments or equity instruments. The accounting of non-controlling interests is determined per transaction. The non-controlling interests are valued either at the fair value on the acquisition date or at a proportionate part of the acquiree's identifiable assets and liabilities. If an acquisition is affected by consecutive purchases (step acquisition) the identifiable assets and liabilities of the acquiree are included at their fair value once control is acquired. Any profit or loss pursuant to the difference between the fair value of the interest held previously in the acquiree and the carrying amount is included in the statement of comprehensive income.

Acquired Group companies are included in the consolidation once a controlling interest has been acquired.

7.4.3 Intercompany and related party transactions

The Management Board and Supervisory Board and the pension funds in the United Kingdom have been identified as related parties. Transactions with the Management Board and the Supervisory Board only consist of remuneration and dividends. Intercompany and related party transactions are determined on an arm's length basis. Transactions between Group companies including unrealised gains on these transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Transactions with non-controlling interests are treated as third party transactions.

7.5 Segment reporting

Operational segment reporting is performed consistently with the internal reporting as provided to the Management Board (the chief operating decision maker). The Management Board is responsible for the allocation of the available resources, the assessment of the operational results and strategic decisions.

7.6 Foreign currency transactions and translation

7.6.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Euros, which is the presentation currency of the Group and the functional currency of the parent company.

7.6.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions (spot rate). Foreign currency exchange gains and losses resulting from the settlement of financial transactions and from the translation at year-end exchange rates of borrowings and cash denominated in foreign currencies are recognised in the income statement as finance cost. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Euros at foreign currency exchange rates effective at the date the values were determined.

A summary of the main currency exchange rates applied in the year under review and the preceding year reads as follows:

Currency exchange rates	1 British pound (GBP) = EUR	1 US dollar (USD) = EUR
2018 Year-end	1.113	0.872
2018 Average	1.129	0.850
2017 Year-end	1.125	0.833
2017 Average	1.141	0.885

7.6.3 Group companies

The results and financial position of all the Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; and
- Income and expenses for each income statement are translated at average exchange rates.

All resulting exchange differences are recognised in equity through other comprehensive income. This is also applicable to currency translation differences on intercompany loans which are treated as investments in foreign activities.

On the disposal of a foreign operation, all the exchange differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

7.7 Intangible assets

7.7.1 Goodwill

Goodwill represents the excess of the costs of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is allocated to cash generating units, being the parts of the segments benefiting from the business combination in which the goodwill arose. Goodwill is not amortised but is tested annually for impairment, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit and loss. An impairment loss recognised for goodwill is not reversed in subsequent periods. On disposal of the relevant cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

7.7.2 Software

Acquired software is capitalised and stated at cost less accumulated amortisation and impairment losses. Software is amortised over the estimated useful life, normally 3 years.

7.7.3 Research and development

Expenditure on research and development activities, undertaken with the prospect of gaining new technical knowledge and new commercially feasible products is recognised in the income statement.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

After initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

7.7.4 Other intangible assets

Other intangible assets include brand names and customer base. Intangible assets that are acquired through acquired companies are initially valued at fair value. This fair value is subsequently treated as deemed cost. These identifiable intangibles are then systematically amortised over the estimated useful life which is between 10 and 20 years.

7.7.5 Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

7.7.6 Amortisation

The straight-line amortisation method is used, based on the estimated useful life of the intangible asset. The amortisation period and the amortisation method have been reviewed at least at each financial year-end. If the expected useful life of the intangible asset was significantly different from previous estimates, the amortisation period has been changed accordingly.
Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

7.8 Property, plant and equipment

7.8.1 Valuation

Property, plant and equipment are stated at cost less accumulated depreciation based on the estimated useful life of the assets concerned and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of directly attributable overheads.

7.8.2 Subsequent expenditure

The Group recognises in the net book amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

All other costs such as repair and maintenance costs are recognised in the income statement as an expense as incurred. The difference between opening and closing balance of assets under construction normally consists of additions and reclassifications to other categories of property, plant and equipment.

7.8.3 Depreciation

For depreciation, the straight-line method is used. The useful life and residual value are reviewed periodically through the life of an asset to ensure that it reflects current circumstances. Depreciation will be applied to property, plant and equipment as soon as the assets are put into operation. The following useful lives are used for depreciation purposes:

Category	**Useful life** (minimum)	**Useful life** (maximum)
Land	Infinite	Infinite
Buildings	5 years	40 years
Plant and equipment	3 years	15 years
Other	3 years	5 years

7.8.4 Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

7.9 Impairment of non-financial assets

Circumstances may arise where the net book amount of an asset may not be economically recoverable from future business activity. Although future production may be technically possible and for commercial reasons necessary, this may be insufficient to recover the current carrying value in the future. Under these circumstances, it is required that a write-down of the net book amount to the recoverable amount (the higher of its fair value less cost to sell and its value in use) is charged as an immediate impairment expense in the income statement. Goodwill and intangible assets with infinite lives are tested for impairment annually, whereas other assets should be tested when circumstances indicate that the carrying amount may not be recoverable. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). If the recoverable amount of the cash generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. An impairment loss will be reversed if there is a change in the estimates used to determine the recoverable amount of the assets since the last impairment loss was recognised. The net book amount of the asset will be increased to its recoverable amount. Goodwill is never subject to reversion of impairment losses recognised.

7.10 Inventories

Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories, other than those for which specific identification of costs are appropriate, is assigned by using a weighted average cost formula. Borrowing costs are excluded.

7.11 Trade receivables

Trade receivables are recognised initially at the transaction price. After their initial recognition trade receivables are carried at amortised cost since it is not designated as at FVTPL and the following conditions are met:

- trade receivables are held within a business model whose objective is to hold these trade receivables to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost is reduced by impairment losses.

7.12 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits. Bank overdrafts that are repayable on demand form an integral part of the Group's cash management and are included as a component of cash and current borrowings for the purpose of the cash flow statement.

7.13 Share capital

Share capital is classified as equity.

7.14 Share based payments (performance share plan)

A limited number of employees of the Group are given the opportunity to participate in a long-term equity-settled incentive plan. The fair value of the rights to shares is expensed on a straight-line basis over the vesting period with a corresponding increase in equity. The total amount taken into account is determined based on the fair value of the shares as determined on the grant date without taking into account the non-market related performance criteria and continued employment conditions ('vesting conditions'). These vesting conditions are included in the expected number of shares that will be vested and this estimate will be revised at the end of each reporting period. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the other reserves.

7.15 Derivatives and borrowings

The Group enters into a variety of derivative financial instruments to manage its exposure to commodity and foreign exchange rate risks. Derivatives are stated at fair value. The change in fair value is included in net finance cost if no hedge accounting is applied. Fair value changes for derivatives which are accounted for under cash flow hedges are added or charged through the total comprehensive income into equity, taking taxation into account. Upon expiration the result from derivatives is brought to the income statement in association with the hedged items.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

7.16 Finance leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has the majority of all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Lease payments are allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rental obligations, net of finance charges, are included in non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

7.17 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their net book amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The deferred tax asset is recognised for the carry-forward of unused tax losses, unused tax credits and deductible temporary differences to the extent that these can be offset by probable future taxable profits. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax asset will be realised.

7.18 Employee benefit plans

The Group has a number of pension plans in accordance with local conditions and practices. Group companies operate various pension schemes.
The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations.

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. Mainly in the UK, Germany, France, Italy and Norway, the plans are partly defined benefit plans. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The defined benefit obligations are measured at present value, taking into account actuarial assumptions; plan assets are valued at fair value.

The service costs including past service costs and the impact of curtailments and settlements are recognised as personnel expenses. The interest expenses are recognised as net interest expenses on employee benefit plans as part of net finance cost. Curtailment gains and losses are accounted for as past service costs. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Remeasurements, including actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, are recognised in other comprehensive income and therefore immediately charged or credited to equity. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

7.19 Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions have been made in connection with liabilities related to normal business operations. These comprise mainly restructuring costs and environmental restoration.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity. The provisions are mainly non-current.

7.20 Trade and other payables

Trade and other payables are payables arising from the Group's normal business operations and are mainly current.

7.21 Current income tax

Current income tax liabilities arise from the Group's normal business operations. The calculation of the current tax is based on the taxable profit for the year.

7.22 Revenue recognition

The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described in note 7.3. The Group recognises revenue to represent the transfer of promised goods or services to customers in an amount that reflects the amount to which the entity expects to be entitled in exchange for those goods or services.

The Group applies the 5-step approach to recognise revenue and recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Determining the timing of the transfer of control – at a point in time or over time – requires judgement. If one of the following criteria are met, then the Group recognises revenue over time:

a. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
b. The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
c. The Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In these cases, a method that follows its performance is used to reflect the pattern of transfer of control of the good or service to the customer (e.g. milestones reached, or costs incurred to date). If none of these criteria are met, the Group considers the control being transferred to the customer at a point in time and the Group recognises revenue at that point in time.

The following is a description of the activities where the Group generates revenue, including the nature and timing of satisfaction of the performance obligations. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 Operating Segments (see note 9).

- Within Installation Technology, Climate Technology and the main part of Industrial Technology the revenue is related to the sale of goods. Revenue is recognised for each separate performance obligation when control over the corresponding goods is transferred to the customer and in accordance with the applicable incoterms.
- Within Material Technology and some parts of other businesses the Group is involved in performing several services under one contract. If the services under a single arrangement are rendered in different reporting periods then the consideration is allocated on a relative fair value basis between the different services. Revenue is recognised at a point in time since none of the criteria to recognise revenue over time are met. The customer can only benefit from the services rendered after company's performance and not when the performance is delivered.
- For some made-to-order product contracts within Industrial Technology, the customer controls the work in progress during manufacturing. When this is the case, revenue is recognised as the products are being manufactured. This results in revenue for these contracts being recognised over time.

The transaction price allocated to (partially) unsatisfied performance obligations at 31 December 2018 are limited given the nature and timing of satisfaction of the performance obligations as described above. As permitted under the transitional provisions in IFRS 15, the transaction price allocated to (partially) unsatisfied performance obligations as of 31 December 2017 is not disclosed. Contract balances and relevant disclosures are limited to receivables and are described as 'trade receivables' in note 13.

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

7.23 Other income

Other income is income not related to the key business activities of the Group or relates to incidental and/or non-recurring items, like income from the sale of non-monetary assets and/or liabilities, commissions from third parties, government grants and insurance amounts received. Grants from the government are recognised at fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all related conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match the costs they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are deducted from the carrying amount of that property, plant and equipment. Insurance amounts received relate to business interruption insurance and to the excess amounts received above the net book value of the lost assets.

7.24 Net finance cost

Interest expense and income on current and non-current borrowings, foreign currency exchange results and fair value changes on derivative financial instruments are recognised in the income statement in net finance cost if no hedge accounting is applied. Results from derivative financial instruments for which hedge accounting is applied are brought from equity to net finance cost upon expiration and in relation with the hedged item.

7.25 Taxation

Income tax expense represents the sum of current and deferred taxes. Taxable profit differs from 'profit before tax' as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.
The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.
Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

7.26 Notes to the consolidated cash flow statement

The cash flow statement is drawn up using the indirect method. The cash paid for the acquired Group companies, less the available cash, is recorded under cash flow from investing activities. The changes in assets and liabilities because of acquisitions are eliminated from the cash flows arising from these assets and liabilities. These changes have been incorporated in the cash flow from investment activities under 'Acquisition of subsidiaries'. The net cash flow consists of the net change of cash and current borrowings in comparison with the previous year.

7.27 Operational leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operational leases. Payments made under operational leases are charged to the income statement on a straight-line basis over the period of the lease.

7.28 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the company's shareholders.

7.29 Accounting for hedging activities

The Group uses financial instruments like interest rate swaps, currency contracts and commodity futures to hedge cash flow risks from non-current borrowings, foreign currency exchange and commodity prices. In accordance with its treasury policy, the Group neither holds nor issues derivate financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Changes in the fair value of these financial instruments are recognised immediately in the income statement. However, where the derivatives qualify for hedge accounting, recognition of any resulting gain or loss depends on the nature of the item being hedged. The valuation of the fair value is derived from observable market information.

If a derivative financial instrument is designated as a hedge against the variability in the cash flows of a recognised asset, liability or highly probable forecasted transaction, the effective part of the hedge is recognised through the total result into equity. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or liability, the associated gain or loss that was recognised directly in equity is brought to the income statement.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from the economic relationship; and
- the hedge ration of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ration but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item. However, when the hedging instrument hedges an equity instrument designated at fair value through other comprehensive income (‘FVTOCI’), the fair value change is recognised in other comprehensive income.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately in profit or loss.

7.30 Critical accounting estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenues and expenses. The estimates and assumptions are based on experience and factors that are believed to be reasonable under circumstances. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The accounting policies have been consistently applied by Group entities to all periods presented in these consolidated financial statements.

7.30.1 Estimated impairments of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 7.7.1. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. The impairment model used is the discounted cash flow method using a weighted average cost of capital (WACC).
The determination of useful lives and residual values require the use of estimates. Details on the impairment tests performed are stated in note 10.1.

7.30.2 Estimated useful lives and residual values

For depreciation and amortisation, the straight-line method is used. The useful life and residual value of property, plant and equipment and intangible assets are reviewed periodically during the life of the asset to ensure that it reflects current circumstances.

7.30.3 Pension plans

Since the Group is dealing with long-term obligations and uncertainties, assumptions are necessary for estimating the amount the Group needs to invest to provide those benefits. Actuaries calculate the defined benefit obligation partly based on information from management such as future salary increase, the rate of return on plan investments, mortality rates, and the rates at which plan participants are expected to leave the system because of retirement, disability and termination.

7.30.4 Taxes

The Group is subject to taxes in numerous jurisdictions. Judgement is required in determining the worldwide provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the company tax and deferred tax provisions in the period in which such determination is made.

7.30.5 Purchase price allocation

For the purpose of the purchase price allocation judgments, estimates and assumptions are made to determine the fair value of the identifiable assets and liabilities at acquisition date. This is mainly related to fair value assessments of property, plant and equipment, intangible assets and the related deferred tax liabilities.

7.30.6 Other critical accounting estimates and assumptions

Accounting estimates and assumptions in relation to specific risks are commented in the respective disclosure notes.

8. Financial risk management

8.1 Financial risk factors

The Group's activities are exposed to a variety of financial risks: market risk, credit risk, liquidity risk, cash flow and interest rate risk and capital risk. The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by Group Treasury under policies approved by the Management Board. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign currency exchange risk, interest rate risk, credit risk, and the use of derivative financial instruments and non-derivative financial instruments. These principles may differ per Group company or business segment being a result of different local market circumstances.

8.1.1 Market risk

The Group operates internationally and is exposed to foreign currency exchange risk arising from various currency exposures, primarily with respect to the US dollar and the British pound. Foreign currency exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Foreign currency exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible for managing the net position in each foreign currency. In general, remaining substantial currency risks are covered by using currency instruments. The Group has several foreign subsidiaries of which the net equity is subject to currency risk. This currency risk is monitored but not hedged.

The US dollar and British pound are the major foreign currencies for the Group. As at 31 December 2018, if the Euro had weakened against the US dollar by 10%, with all other variables held constant, the net profit of the Group would have been impacted by positive EUR 1.2 million (2017: positive EUR 1.8 million). The net equity as at year-end would have been impacted by positive EUR 24.0 million (2017: positive EUR 18.5 million).
As at 31 December 2018, if the Euro had weakened against the British pound by 10%, with all other variables held constant, the net profit of the Group would have been impacted by positive EUR 1.2 million (2017: positive EUR 1.0 million). The net equity as at year-end would have been impacted by positive EUR 17.9 million (2017: positive EUR 12.1 million).

The Group is exposed to price risk of commodities because of its dependence on certain raw materials, especially copper. Generally, commodity price variances are absorbed in the sales price. Additionally, the Group makes use of its strong position in the market for commodities to realise the purchase and delivery of raw materials at the best possible terms and conditions. Where considered necessary, exposures with high risk may be covered through commodity future contracts.

8.1.2 Credit risk

The Group has no significant concentrations of credit risk due to the diversification of activities and markets. It has policies in place to ensure that wholesale sales of products are made to creditworthy customers. The vast majority of the Group companies make use of credit insurance. Derivative and cash transactions are executed with creditworthy financial institutions.

The maximum credit risk on financial assets, being the total carrying value of these assets before provisions for impairment of receivables, amounts to EUR 460.7 million (2017: EUR 441.5 million):

in EUR million	31-12-2018	31-12-2017
Trade receivables (gross)	350.6	360.7
Other current assets	56.4	37.3
Cash and cash equivalents	53.7	43.5
TOTAL	**460.7**	**441.5**

8.1.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping credit lines available at a number of well-known financial institutions. On the basis of cash flow forecasting models the Group tests, on a periodic basis, whether the available credit facilities will cover the expected credit need. Based on these analyses, the Group believes that the current expected credit need is sufficiently covered. On a going concern basis, except for major acquisitions, the Group therefore expects to be able to cover cash flow from investing and financing activities out of the cash flow from operating activities and existing credit facilities.

8.1.4 Cash flow and interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises mainly from current and non-current borrowings. Group policy is to maintain the majority of its borrowings in floating rate instruments. Where considered applicable the Group manages its interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. As at 31 December 2018, if the Euribor/US Libor would have been 100 basis points higher, with all other variables constant, the net profit of the Group would have been impacted by negative EUR 1.4 million (2017: negative EUR 1.7 million), mainly as a result of higher interest expenses on floating rate borrowings. The net equity as at year-end would have been impacted with the same amount. The change in the market value as at balance sheet date of the derivative financial instruments, as a result of the interest adjustment, is excluded from this sensitivity analysis.

8.1.5 Capital risk

In order to manage going concern for shareholders and other stakeholders the Group periodically monitors the capital structure in consistency with the industry through the following principal financial ratios: leverage ratio (net debt / EBITDA on 12 months rolling basis), 2018: 1.3 (2017: 1.3), interest cover ratio (EBITDA / net interest expense on 12 months rolling basis), 2018: 27.2 (2017: 25.9), and gearing (net debt / total equity), 2018: 0.3 (2017: 0.4).

9. Segment reporting

9.1 Reportable segments

Aalberts is organised in the following four businesses that are identified as the reportable segments:

- Installation Technology
- Material Technology
- Climate Technology
- Industrial Technology

Within these businesses the focus is on leading technology and market positions with high added value for specific end users. This spread in businesses, end markets and geographical areas offers, besides a stable basis, the possibility to make use of the global footprint to realise new business opportunities.

The businesses are each managed separately by a business management team which is held directly responsible for the functioning and performance of the business and which reports to the Management Board (the chief operating decision maker). The results of the businesses are monitored on the level of operating profit (EBITA) which does not include amortisation, interest and tax related expenses or income.

Besides the identified reportable segments there are head office activities, unallocated items and eliminations of intersegment transfers or transactions. These are grouped together as Holding/eliminations and are mainly related to supporting activities and projects at the level of the head office. The related gains and losses are directly monitored by the Management Board. Unallocated assets mainly consist of (deferred) income tax assets.

Intersegment transfer or transactions are entered into under transfer pricing terms and conditions that are comparable with terms and conditions with unrelated third parties.

Information regarding the operating activities and performance of each reportable segment is as follows:

2018	Installation Technology	Material Technology	Climate Technology	Industrial Technology	Holding / eliminations	Total
Revenue						
External customers	1,092.8	744.2	516.1	405.8	–	**2,758.9**
Intersegment	26.6	2.5	29.9	3.5	(62.5)	–
TOTAL REVENUE	**1119.4**	**746.7**	**546.0**	**409.3**	**(62.5)**	**2,758.9**
Operating profit (EBITA)	134.1	102.1	65.4	64.3	(0.4)	**365.5**
EBITA as % of revenue	12.0	13.7	12.0	15.7	–	**13.3**
Assets	1,092.5	876.3	449.2	647.5	82.4	**3,147.9**
Liabilities	294.3	157.1	103.4	109.8	11.5	**676.1**
Depreciation	34.8	42.1	8.6	8.9	1.5	**95.9**
Capital expenditures	37.7	58.7	9.5	24.9	3.1	**133.9**

2017	Installation Technology	Material Technology	Climate Technology	Industrial Technology	Holding / eliminations	Total
Revenue						
External customers	1,102.0	731.2	501.0	359.8	–	**2,694.0**
Intersegment	32.8	2.7	22.8	3.1	(61.4)	**–**
TOTAL REVENUE	**1,134.8**	**733.9**	**523.8**	**362.9**	**(61.4)**	**2,694.0**
Operating profit (EBITA)	138.7	97.3	62.3	54.4	(17.2)	**335.5**
EBITA as % of revenue	12.2	13.3	11.9	15.0	–	**12.5**
Assets	1,064.3	800.8	439.1	542.2	64.0	**2,910.4**
Liabilities	294.2	133.1	96.4	101.2	10.0	**634.9**
Depreciation	28.2	40.7	8.5	7.9	1.6	**86.9**
Capital expenditures	43.2	51.2	6.5	17.4	0.6	**118.9**

Reconciliation of reportable segment EBITA to profit before tax is as follows:	2018	2017
Total operating profit (EBITA) of reportable segments	365.5	335.5
Amortisation of intangible assets	(36.7)	(33.7)
Net finance cost	(22.4)	(25.4)
CONSOLIDATED PROFIT BEFORE INCOME TAX	**306.4**	**276.4**

Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, trade debtors and other current assets.

Segment liabilities do not include borrowings, finance leases and other liabilities that are incurred for financing rather than operating purposes. In addition, segment liabilities do not include deferred tax liabilities and current income tax liabilities.

Reconciliation to the consolidated balance sheet is as follows:	2018	2017
Total liabilities of reportable segments	676.1	634.9
Non-current and current borrowings	630.5	603.6
Finance leases	9.3	8.5
Tax liabilities	156.2	150.7
Equity	1,675.8	1,512.7
CONSOLIDATED TOTAL EQUITY AND LIABILITIES	**3,147.9**	**2,910.4**

9.2 Geographical Information

Revenue is allocated based on the geographical location of the customers:

Revenue	2018	%	2017	%
Benelux, United Kingdom, Nordic	700.9	25.4	668.1	24.8
North America	618.5	22.4	631.0	23.4
Germany, Austria, Switzerland	579.2	21.0	589.5	21.9
France, Southern Europe	388.8	14.1	347.4	12.9
Russia, Eastern Europe	281.5	10.2	261.6	9.7
Far East	93.6	3.4	91.5	3.4
Middle East & Africa	62.1	2.3	70.2	2.6
Other countries	34.3	1.2	34.7	1.3
TOTAL	**2,758.9**	**100.0**	**2,694.0**	**100.0**

Assets are allocated based on the country in which the assets are located and include goodwill, other intangible assets and property, plant and equipment:

Non-current assets	2018	%	2017	%
Benelux, United Kingdom, Nordic	682.6	33.0	582.0	30.4
North America	370.8	17.9	308.8	16.1
Germany, Austria, Switzerland	582.5	28.2	588.8	30.7
France, Southern Europe	248.1	12.0	247.1	12.9
Russia, Eastern Europe	108.4	5.2	104.7	5.5
Far East	75.6	3.7	84.7	4.4
Middle East & Africa	0.1	–	0.1	–
TOTAL	**2,068.1**	**100.0**	**1,916.2**	**100.0**

9.3 Analyses of revenue by category

Revenue	2018	%	2017	%
Sale of goods	2,257.8	81.8	2,197.3	81.6
Services	501.1	18.2	496.7	18.4
TOTAL	**2,758.9**	**100.0**	**2,694.0**	**100.0**

10. Intangible assets

	Goodwill	Other intangibles	Software	**Total**
AS AT 1 JANUARY 2017				
Cost	736.2	551.8	51.9	**1,339.9**
Accumulated amortisation	–	(173.6)	(38.1)	**(211.7)**
NET BOOK AMOUNT	**736.2**	**378.2**	**13.8**	**1,128.2**
Additions	–	2.1	7.7	**9.8**
Acquisition of subsidiaries	19.7	31.8	0.1	**51.6**
Amortisation	–	(29.2)	(4.5)	**(33.7)**
Currency translation	(14.9)	(13.8)	(0.6)	**(29.3)**
CLOSING NET BOOK AMOUNT	**741.0**	**369.1**	**16.5**	**1,126.6**
AS AT 31 DECEMBER 2017				
Cost	741.0	566.2	58.8	**1,366.0**
Accumulated amortisation	–	(197.1)	(42.3)	**(239.4)**
NET BOOK AMOUNT	**741.0**	**369.1**	**16.5**	**1,126.6**
Additions	–	2.0	5.8	**7.8**
Acquisition of subsidiaries	63.6	65.1	–	**128.7**
Disposal of subsidiaries	(0.4)	–	–	**(0.4)**
Amortisation	–	(31.6)	(5.1)	**(36.7)**
Currency translation	4.4	4.3	0.1	**8.8**
CLOSING NET BOOK AMOUNT	**808.6**	**408.9**	**17.3**	**1,234.8**
AS AT 31 DECEMBER 2018				
Cost	808.6	642.8	63.5	**1,514.9**
Accumulated amortisation	–	(233.9)	(46.2)	**(280.1)**
NET BOOK AMOUNT	**808.6**	**408.9**	**17.3**	**1,234.8**

Other intangible assets mainly consist of intangible assets from acquisitions. Approximately two third of the book amount relates to customer relations. The remainder relates to brand names and technology.

10.1 Goodwill

Goodwill is not amortised and has an infinite useful life at the time of recognition.

Impairment tests

The book amount of goodwill has been allocated to the cash generating units within Installation Technology, Material Technology, Climate Technology and Industrial Technology for the purpose of impairment testing. The allocation of the book amount of goodwill to the reportable segments is, on aggregated level, as follows:

	31-12-2018	31-12-2017
Installation Technology	253.7	253.5
Material Technology	216.9	195.6
Climate Technology	123.0	120.6
Industrial Technology	215.0	171.3
TOTAL	**808.6**	**741.0**

The recoverable amount of a cash generating unit is determined based on their calculated value in use. These calculations are pre-tax cash flow projections based on the financial budgets for 2019 which are approved by management and on strategic business plans for the four years thereafter. Management determined budgeted growth rates based on past performance and its expectations of market developments. For the period after 2023 a growth rate equal to expected long-term inflation is taken into account. The discount rates used are pre-tax and reflect specific risks relating to the relevant cash generating units.

The assumptions used for impairment tests are as follows:

2018	Installation Technology	Material Technology	Climate Technology	Industrial Technology
Average growth rate (first 5 years)	3.2% - 5.0%	3.9% - 5.2%	2.5% - 4.5%	3.2% - 7.2%
Long-term average growth rate (after 5 years)	1.0%	1.0%	1.0%	1.0%
Discount rate (pre-tax)	11.1% - 13.7%	10.0% - 10.7%	10.9% - 12.0%	9.9% - 12.6%
Discount rate (post-tax)	8.5% - 10.3%	7.6% - 8.2%	8.1% - 9.0%	7.5% - 9.4%

2017	Installation Technology	Material Technology	Climate Technology	Industrial Technology
Average growth rate (first 5 years)	2.4% - 8.1%	3.5% - 4.8%	4.4% - 5.5%	3.8% - 7.2%
Long-term average growth rate (after 5 years)	1.0%	1.0%	1.0%	1.0%
Discount rate (pre-tax)	10.0% - 12.7%	10.4% - 10.5%	10.8% - 10.9%	9.6% - 12.0%
Discount rate (post-tax)	7.6% - 7.7%	7.6%	7.6%	7.6% - 7.7%

No impairment was necessary following impairment tests on all cash generating units within the Group, since the discounted future cash flows from the cash generating units exceeded the value of the capital employed.

It is inherent in the method of computation used that a change in the assumptions may lead to a different conclusion on the impairment required. Therefore a sensitivity analysis is performed based on a change in an assumption while holding all other assumptions constant.

The following changes in assumptions are assessed:

- Decrease of the average growth rate by 2.0%
- Decrease of the long-term average growth rate by 1.0%
- Increase of the discount rate (post-tax) by 1.0%

Based on the sensitivity analysis performed it is concluded that any reasonable change in the key assumptions would also not require an impairment.

11. Property, plant and equipment

	Land and buildings	Plant and equipment	Other	Under construction	Total
AS AT 1 JANUARY 2017					
Cost	595.4	1,572.7	88.9	39.2	**2,296.2**
Accumulated depreciation	(275.9)	(1,182.4)	(76.4)	–	**(1,534.7)**
NET BOOK AMOUNT	**319.5**	**390.3**	**12.5**	**39.2**	**761.5**
Additions	10.8	60.5	3.5	44.1	**118.9**
Assets taken into operation	5.7	26.7	4.3	(36.7)	**–**
Disposals	(0.5)	(1.4)	(0.1)	(0.2)	**(2.2)**
Acquisition of subsidiaries	5.2	0.9	0.3	–	**6.4**
Depreciation	(21.1)	(60.5)	(5.3)	–	**(86.9)**
Currency translation	(5.7)	(14.1)	(0.6)	(2.4)	**(22.8)**
CLOSING NET BOOK AMOUNT	**313.9**	**402.4**	**14.6**	**44.0**	**774.9**
AS AT 31 DECEMBER 2017					
Cost	602.1	1,566.3	91.0	44.0	**2,303.4**
Accumulated depreciation	(288.2)	(1,163.9)	(76.4)	–	**(1,528.5)**
NET BOOK AMOUNT	**313.9**	**402.4**	**14.6**	**44.0**	**774.9**
Additions	10.9	51.8	3.3	67.9	**133.9**
Assets taken into operation	11.5	29.3	3.7	(44.5)	**–**
Disposals	(5.3)	(12.2)	(0.4)	(4.4)	**(22.3)**
Acquisition of subsidiaries	14.6	17.9	0.5	2.5	**35.5**
Disposal of subsidiaries	(6.2)	(3.2)	(0.4)	–	**(9.8)**
Depreciation	(18.4)	(71.8)	(5.7)	–	**(95.9)**
Currency translation	(0.8)	2.4	0.3	–	**1.9**
CLOSING NET BOOK AMOUNT	**320.2**	**416.6**	**15.9**	**65.5**	**818.2**
AS AT 31 DECEMBER 2018					
Cost	628.6	1,643.7	95.8	65.5	**2,433.6**
Accumulated depreciation	(308.4)	(1,227.1)	(79.9)	–	**(1,615.4)**
NET BOOK AMOUNT	**320.2**	**416.6**	**15.9**	**65.5**	**818.2**

At year-end, Group companies had investment commitments outstanding in respect of property, plant and equipment in the amount of EUR 102.9 million (2017: EUR 50.7 million) of which EUR 65.5 million (2017: EUR 44.0 million) has been capitalised on the balance sheet as advance payment.

The Group leases production equipment under a number of finance leases. The leased equipment secures the lease obligations. As at 31 December 2018, the net carrying amount of leased equipment was EUR 9.3 million (2017: EUR 8.5 million).

12. Inventories

	31-12-2018	31-12-2017
Raw materials	148.3	131.4
Work in progress	152.2	137.6
Finished goods	309.1	283.8
Other inventories	4.1	4.0
TOTAL	**613.7**	**556.8**

The costs of inventories recognised as an expense and impairment losses on inventories are included in ‘raw materials and work subcontracted’. In 2018 EUR 970.5 million (2017: EUR 952.3 million) raw materials is recognised in the consolidated income statement as raw materials used.

The provision for write-down of inventories, due to obsolescence and slow-moving stock, amounts to EUR 27.3 million (2017: EUR 27.9 million). During 2018 a write-off expense of EUR 0.4 million (2017: EUR 1.8 million) is included in the raw materials and work subcontracted.

The majority of the inventory has a turnover of less than one year.

13. Trade receivables

	31-12-2018	31-12-2017
Trade receivables (gross)	350.6	360.7
Allowance for expected credit losses of receivables	(7.7)	(7.6)
TRADE RECEIVABLES (NET)	**342.9**	**353.1**

There is no concentration of credit risk with respect to trade receivables, as the Group has a large customer base which is internationally dispersed and makes use of credit insurance for a majority of its receivables.

Impairment losses on trade receivables are included in the ‘other operating expenses’ and amount to EUR 2.9 million (2017: EUR 1.9 million). The carrying amount approximates the fair value.

The movement in the allowance for expected credit losses of receivables is as follows:

	2018	2017
AS AT 1 JANUARY	7.6	7.6
Additions	2.9	1.9
Used during year	(3.0)	(2.0)
Acquisition of subsidiaries	0.2	0.1
AS AT 31 DECEMBER	**7.7**	**7.6**

The allowance for expected credit losses of receivables of EUR 7.7 million (2017: EUR 7.6 million) is mainly related to receivables past due more than 90 days. The allowance for expected credit losses (ECL) of trade receivables is based on individual assessments. A periodically review is performed whether an allowance for credit losses is needed by considering factors such as payment history, credit quality, expected lifetime losses and current economic conditions that may affect a customer's ability to pay.

The past due aging analysis of the trade receivables is as follows:

	31-12-2018	31-12-2017
Not past due	288.5	283.0
Past due less than 30 days	42.2	46.6
Past due between 30 days and 60 days	7.6	10.6
Past due between 60 days and 90 days	2.3	5.2
Past due more than 90 days	10.0	15.3
TRADE RECEIVABLES (GROSS)	**350.6**	**360.7**

The majority of the carrying amounts is denominated in the functional currency of the reported entities.

	31-12-2018	31-12-2017
Euro	186.0	201.6
US dollar	80.0	85.3
British pound	28.5	30.8
Other currencies	56.1	43.0
TRADE RECEIVABLES (GROSS)	**350.6**	**360.7**

14. Other current assets

	31-12-2018	31-12-2017
Prepaid and accrued income	20.8	18.2
Deferred consideration for the disposal of subsidiaries	9.2	–
Derivative financial instruments	–	1.1
Other receivables	26.4	18.0
TOTAL	**56.4**	**37.3**

The derivative financial instruments consist of metal hedging contracts, please also refer to note 20.

15. Equity

15.1 Share capital

The total number of ordinary shares outstanding at year-end was 110.6 million shares (2017: 110.6 million shares) with a par value of EUR 0.25 per share. In addition, there are 100 priority shares issued with a par value of EUR 1.00 per share. An explanation of the total number of shares outstanding is included in note 34.4.

15.2 Currency translation and hedging reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

15.3 Share based payments (performance share plan)

Aalberts reviews on an annual basis whether awards from the existing Performance Share Plan will be granted to a limited number of employees. This plan is a share based equity-settled incentive plan. Conditional shares are awarded that become unconditional three years after the start of the performance period as long as the related conditions with regard to employment and performance have been met. The performance conditions attached to the granting of Performance Shares are based on the company's financial performance over a three-year performance period. The financial performance over the three calendar years is measured based on the average growth of the earnings per share before amortisation (EPS). The conditions of the plan stipulate that ultimately a maximum of 125% of the number of conditionally granted shares at the start of the performance period can be paid out.

PSP 2015-2017: Based on the average growth of the earnings per share before amortisation (EPS) over the three-year period (2015-2017), the maximum of 125% of the conditional shares at the end of 2017 (132,500 shares) vested in 2018 (165,625 shares). In June 2018, a total of 117,882 shares were purchased at market value for EUR 5.0 million and transferred to the security accounts of the individual employees. A total of 47,743 shares with a market value of EUR 2.0 million were used to settle the income tax liability of several employees (‘net settlement feature’). An amount of EUR 1.3 million (2017: EUR 1.2 million) was charged to the personnel expenses and credited to total equity (overall no impact on equity).

PSP 2017-2019: In May/June 2017, a total number of 147,000 (100%) conditional shares were granted and accepted. The fair value of the Performance Shares is based on the share price on the grant date, minus the discounted value of the expected dividends in the period that the shares were granted conditionally, in view of the fact that the participants are not entitled to dividends during the vesting period. The expected dividends are based on the company’s dividend policy.
As at the end of 2018, the total fair value of the 147,000 conditional shares was EUR 5.1 million. An amount of EUR 1.7 million (2017: EUR 1.2 million) was charged to the personnel expenses and credited to total equity (overall no impact on equity).

The Management Board members participate in the Performance Share Plan. The details are mentioned in the remuneration of the board as disclosed in note 34.8.

15.4 Dividend

The dividends paid in 2018 amounted to EUR 0.65 per share (2017: EUR 0.58 per share). A dividend in respect of the year ended 31 December 2018 of EUR 0.75 per share will be proposed at the General Meeting to be held on 17 April 2019. These financial statements do not reflect this dividend payable.

15.5 Non-controlling interests

Non-controlling interests amount to EUR 24.2 million (2017: EUR 22.4 million), where the result for the year, including comprehensive income, amounts to EUR 1.9 million (2017: 4.5 million).

16. Borrowings

Aalberts has agreed the following covenants with its banks which are tested twice a year:

Covenants	Leverage ratio	Interest cover ratio
As at 30 June of each year	< 3.5	> 3.0
As at 31 December of each year	< 3.0	> 3.0

The interest rate margin depends on the leverage ratio achieved.

Definitions:
- Leverage ratio: Net debt (EUR 586.1 million) / LTM EBITDA on 12 months rolling basis (EUR 454.1 million)
- Interest cover ratio: LTM EBITDA (EUR 454.1 million) / net interest expense (EUR 16.7 million) on 12 months rolling basis

At year-end the requirements in the covenants are met as stated below:

Covenant ratios as at year end	2018	2017
Leverage ratio	1.3	1.3
Interest cover ratio	27.2	25.9

LTM EBITDA (12 months rolling basis)	2018	2017
Reported EBITDA	461.5	422.4
Adjustment for acquisitions and disposals	(2.0)	1.4
Adjustment for extraordinary items	(5.4)	8.2
LTM EBITDA	**454.1**	**432.0**

	Bank borrowings	Finance leases	Total 2018	Total 2017
AS AT 1 JANUARY	**540.4**	**8.5**	**548.9**	**551.5**
New borrowings	165.8	3.8	169.6	144.5
Repayments	(136.5)	(2.9)	(139.4)	(130.0)
Acquisition of subsidiaries	2.7	–	2.7	–
Currency translation differences	5.8	(0.1)	5.7	(17.1)
AS AT 31 DECEMBER	**578.2**	**9.3**	**587.5**	**548.9**
Current portion of non-current borrowings	(125.3)	(2.7)	(128.0)	(134.8)
NON-CURRENT BORROWINGS AS AT 31 DECEMBER	**452.9**	**6.6**	**459.5**	**414.1**

The current portion of non-current borrowings amounts to EUR 128.0 million (2017: EUR 134.8 million) and is presented within the current liabilities. The carrying amount approximates the fair value; the effective interest rate approximates the average interest rate. The average effective interest rate on the portfolio of borrowings outstanding in 2018, including hedge instruments related to these borrowings, amounted to 1.6% (2017: 2.0%).

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities within a range of EUR 120 million and EUR 140 million as at 1 January 2019. However, the financial covenants as set out above shall be calculated and tested on the basis of frozen IFRS (i.e. IFRS as applied in respect of the audited 2017 financial statements) and will therefore not be impacted.

16.1 Bank borrowings

The maturity of the future undiscounted cash flows is as follows:

	Repayments bank borrowings	Interest payments	Total 2018	Total 2017
2018	–	–	–	140.3
2019	125.3	9.9	135.2	130.3
2020	131.5	7.8	139.3	125.3
2021	155.8	5.1	160.9	122.4
2022	72.4	2.8	75.2	38.8
2023	33.7	1.8	35.5	0.2
2024 and thereafter	59.5	1.4	60.9	0.6
TOTAL	**578.2**	**28.8**	**607.0**	**557.9**

The Group’s bank borrowings are denominated in the following currencies:

Bank borrowings	2018	2017
Euro	425.9	426.1
US dollar	150.4	109.4
Other currencies	1.9	4.9
TOTAL	**578.2**	**540.4**

16.2 Finance leases

Maturity finance leases	2018	2017
Minimum lease payments		
Within 1 year	2.9	1.7
Between 1-5 years	6.4	6.0
Over 5 years	0.5	1.5
TOTAL	**9.8**	**9.2**
Future finance charges		
Within 1 year	0.2	0.2
Between 1-5 years	0.3	0.4
Over 5 years	–	0.1
TOTAL	**0.5**	**0.7**
Present value of finance lease		
Within 1 year	2.7	1.5
Between 1-5 years	6.1	5.6
Over 5 years	0.5	1.4
PRESENT VALUE OF FINANCE LEASE IN THE BALANCE SHEET	**9.3**	**8.5**

16.3 Cash and current borrowings

Bank borrowings	31-12-2018	31-12-2017
Cash	53.7	43.5
Current borrowings	(52.2)	(63.2)
CASH AND CURRENT BORROWINGS	**1.5**	**(19.7)**

The cash and current borrowings amount to EUR 1.5 million (2017: EUR 19.7 million negative). The cash consists of cash and bank balances for an amount of EUR 53.0 million (2017: EUR 36.0 million) and cash in transit for an amount of EUR 0.7 million (2017: EUR 7.5 million). The current borrowings of EUR 52.2 million (2017: EUR 63.2 million) are drawn on credit facilities which mainly consist of zero balancing cash pool agreements with several domestic and foreign financial institutions. Cash is freely disposable.

Current borrowings are short-term credit facilities consisting of committed and uncommitted credit lines, provided by a number of credit institutions. The total of these facilities at year-end 2018 amounted to EUR 951.4 million (2017: EUR 909.0 million), of which between EUR 200 million and EUR 300 million was used throughout the year. During 2018, RCF credit facilities have been renewed with five relationship banks for five years. At year-end 2018, a total of seven RCF credit facilities consist of EUR 50.0 million committed and two RCF credit facilities consist of USD 50.0 million committed, bringing the total committed RCF credit facilities to EUR 437.2 million (2017: EUR 383.3 million). The carrying amount approximates the fair value.

17. Deferred income taxes

2017	Tax Losses	Intangible assets	Plant and equipment	Provisions	Working capital and other	Offsetting	**(Net asset)/ liability**
Assets	3.4	0.4	2.1	21.1	12.0	(25.6)	**13.4**
Liabilities	–	103.2	34.0	5.1	6.0	(25.6)	**122.7**
AS AT 1 JANUARY 2017	**(3.4)**	**102.8**	**31.9**	**(16.0)**	**(6.0)**	**–**	**109.3**
Income statement	0.4	(4.4)	3.4	(3.2)	1.3	–	**(2.5)**
Direct to OCI	–	0.1	–	1.5	0.7	–	**2.3**
Acquisition subsidiaries	–	8.0	0.5	–	–	–	**8.5**
Effect of rate changes	(0.2)	(8.7)	(8.8)	0.4	0.8	–	**(16.5)**
Currency translation	–	(3.1)	(2.5)	0.3	(0.1)	–	**(5.4)**
Movements 2017	**0.2**	**(8.1)**	**(7.4)**	**(1.0)**	**2.7**	**–**	**(13.6)**
Assets	3.2	0.1	4.5	18.9	7.0	(19.0)	**14.7**
Liabilities	–	94.8	29.0	1.9	3.7	(19.0)	**110.4**
AS AT 31 DECEMBER 2017	**(3.2)**	**94.7**	**24.5**	**(17.0)**	**(3.3)**	**–**	**95.7**

2018	Tax Losses	Intangible assets	Plant and equipment	Provisions	Working capital and other	Offsetting	(Net asset)/ liability
Income statement	(0.6)	(5.4)	1.6	(0.7)	3.2	–	**(1.9)**
Direct to OCI	–	–	–	0.2	(0.3)	–	**(0.1)**
Acquisition subsidiaries	–	13.7	(0.2)	0.1	0.2	–	**13.8**
Disposal subsidiaries	–	–	(0.1)	0.3	0.1	–	**0.3**
Effect of rate changes	0.2	(7.7)	(0.2)	0.2	(0.1)	–	**(7.6)**
Currency translation	0.3	0.9	0.8	(0.1)	(0.2)	–	**1.7**
Movements 2018	**(0.1)**	**1.5**	**1.9**	**–**	**2.9**	**–**	**6.2**
Assets	3.3	0.1	4.1	18.6	4.5	(15.5)	**15.1**
Liabilities	–	96.3	30.5	1.6	4.1	(15.5)	**117.0**
AS AT 31 DECEMBER 2018	**(3.3)**	**96.2**	**26.4**	**(17.0)**	**(0.4)**	**–**	**101.9**

Deferred income tax assets mainly relate to temporary differences on pension provisions and recognised tax losses. Deferred income tax liabilities mainly relate to temporary differences on other intangible assets which arose from acquisitions and temporary depreciation differences on property, plant and equipment.

17.1 Unrecognised unused tax losses

The Group has unrecognised carry-forward tax losses amounting to some EUR 41.5 million (2017: EUR 45.9 million). The related deferred income tax assets have not been recorded, since future usage is mainly depending on profit-earning capacity.

	31-12-2018	31-12-2017
Expire in less than 1 year	2.2	0.8
Expire between 1 and 5 years	14.9	17.1
Expire from 5 years or more	5.6	7.2
Indefinite	18.8	20.8
TOTAL UNRECOGNISED UNUSED TAX LOSSES	**41.5**	**45.9**

18. Provisions

18.1 Retirement benefit obligations

	Present value (partly) funded obligations	Fair value plan assets	**Net liability**	Present value unfunded obligations	**Total**
AS AT 1 JANUARY 2017	**197.7**	**(132.1)**	**65.6**	**19.0**	**84.6**
Current service cost	1.2	–	**1.2**	0.7	**1.9**
Interest expense / (income)	4.5	(3.0)	**1.5**	0.3	**1.8**
Recognised in income statement	5.7	(3.0)	**2.7**	1.0	**3.7**
Actuarial gains and losses (demographic assumptions)	(3.0)	–	**(3.0)**	–	**(3.0)**
Actuarial gains and losses (financial assumptions)	3.0	–	**3.0**	(0.3)	**2.7**
Actuarial gains and losses (experience adjustments)	(1.2)	–	**(1.2)**	0.1	**(1.1)**
Remeasurements of plan assets	–	(7.5)	**(7.5)**	–	**(7.5)**
Recognised in other comprehensive income	(1.2)	(7.5)	**(8.7)**	(0.2)	**(8.9)**
Contributions by employer	–	(4.4)	**(4.4)**	–	**(4.4)**
Contributions by participants	0.3	(0.3)	**–**	–	**–**
Benefits paid	(7.5)	7.5	**–**	(1.0)	**(1.0)**
Acquisition subsidiaries	–	–	**–**	0.2	**0.2**
Currency translation	(8.9)	6.2	**(2.7)**	0.1	**(2.6)**
AS AT 31 DECEMBER 2017	**186.1**	**(133.6)**	**52.5**	**19.1**	**71.6**

	Present value (partly) funded obligations	Fair value plan assets	**Net liability**	Present value unfunded obligations	**Total**
AS AT 1 JANUARY 2018	**186.1**	**(133.6)**	**52.5**	**19.1**	**71.6**
Current service cost	1.2	–	**1.2**	0.7	**1.9**
Interest expense / (income)	4.2	(3.0)	**1.2**	0.3	**1.5**
Recognised in income statement	5.4	(3.0)	**2.4**	1.0	**3.4**
Actuarial gains and losses (demographic assumptions)	(1.1)	–	**(1.1)**	0.1	**(1.0)**
Actuarial gains and losses (financial assumptions)	(7.6)	–	**(7.6)**	(0.1)	**(7.7)**
Actuarial gains and losses (experience adjustments)	0.2	–	**0.2**	0.2	**0.4**
Remeasurements of plan assets	–	9.5	**9.5**	–	**9.5**
Recognised in other comprehensive income	(8.5)	9.5	**1.0**	0.2	**1.2**
Contributions by employer	–	(4.3)	**(4.3)**	–	**(4.3)**
Contributions by participants	0.2	(0.2)	**–**	–	**–**
Benefits paid	(8.4)	8.4	**–**	(1.3)	**(1.3)**
Settlements	(6.6)	6.6	**–**	–	**–**
Acquisition subsidiaries	0.2	(0.6)	**(0.4)**	–	**(0.4)**
Reclassifications	0.7	(0.7)	**–**	–	**–**
Currency translation	(1.2)	0.5	**(0.7)**	0.1	**(0.6)**
AS AT 31 DECEMBER 2018	**167.9**	**(117.4)**	**50.5**	**19.1**	**69.6**

The retirement benefit obligations are largely related to defined benefit plans in the UK, Germany and France. The liability in the balance sheet and the amounts recognised in the income statement are divided over the countries as follows:

	United Kingdom	Germany	France	Other	**Total**
Present value of (partly) funded obligations	136.6	9.6	2.5	19.2	**167.9**
Fair value of plan assets	(96.7)	(5.1)	(0.8)	(14.8)	**(117.4)**
	39.9	4.5	1.7	4.4	**50.5**
Present value of unfunded obligations	–	7.6	8.8	2.7	**19.1**
LIABILITY IN THE BALANCE SHEET AS AT 31 DECEMBER 2018	**39.9**	**12.1**	**10.5**	**7.1**	**69.6**
LIABILITY IN THE BALANCE SHEET AS AT 31 DECEMBER 2017	41.1	12.6	10.6	7.3	71.6

Amounts recognised in income statement	United Kingdom	Germany	France	Other	**Total**
Current service cost in personnel expenses	0.2	0.1	0.7	0.9	**1.9**
Interest expense / (income)	1.0	0.2	0.2	0.1	**1.5**
TOTAL RECOGNISED IN INCOME STATEMENT	**1.2**	**0.3**	**0.9**	**1.0**	**3.4**

The significant actuarial assumptions used for the calculations of the defined benefit obligations are:

Actuarial assumptions 2018	United Kingdom	Germany	France
Discount rate	2.85%	2.00%	1.60%
Rate of inflation	3.15%	1.50%	2.00%
Future salary increases	2.22%	2.50%	2.00%

Actuarial assumptions 2017	United Kingdom	Germany	France
Discount rate	2.55%	1.85%	1.50%
Rate of inflation	3.15%	1.50%	2.00%
Future salary increases	2.23%	2.50%	2.00%

Assumptions regarding future mortality are based on published statistics and mortality tables in the respective countries. The sensitivity of the defined benefit obligation to changes in the actuarial assumptions is:

		Impact on defined benefit obligation	
Actuarial assumption	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by 7.9%	Increase by 8.4%
Rate of inflation	0.50%	Increase by 5.3%	Decrease by 5.6%
Future salary increases	0.50%	Increase by 4.2%	Decrease by 3.9%
Life expectancy	1 year	Increase by 3.9%	Decrease by 3.8%

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, the outcome will deviate from this analysis because assumptions may be correlated.

The plan assets consist of the following categories:	2018	2017
Equities	53%	51%
Bonds	7%	6%
Other net assets	40%	43%
TOTAL	**100%**	**100%**

The other net assets mainly comprise collective insurance contracts held by insurance companies. The Dutch subsidiaries participate in multi-employer pension plans. Under IFRS these plans qualify as defined contribution plans. The Group expects EUR 6.1 million in contributions to be paid to its defined benefit plans in 2019 of which EUR 3.2 million is related to the UK defined benefit plans.

UK Defined Benefit Plans

The defined benefit plans in the UK comprise the Yorkshire Fittings Pension Scheme and the Hauck Heat Treatment Limited Group Pension Scheme, previously known as TTI Group Pension Scheme. The defined benefit plans can be classified as final salary benefit plans. The level of retirement benefit is principally based on salary earned in the last few years of employment prior to leaving active service and is linked to changes in inflation up to retirement.

Both plans are subject to funding legislation, which came into force on 30 December 2005, outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK.

The actuarial valuation of the plan assets and the present value of the defined benefit obligations were carried out by an external company. Both actuaries are Fellow of the Institute and Faculty of Actuaries. None of the fair values of the related assets include any direct investments in the company's own financial instruments or any property occupied by, or other assets used by, the company. All the scheme assets have a quoted market price in an active market with the exception of the Trustee's bank account balance.

Yorkshire Fittings Pension Scheme
The Yorkshire Fittings Pension Scheme is a separate trustee administrated fund, holding the pension assets to meet long-term pension liabilities for some 574 past employees as at 31 March 2015. The scheme closed to future accrual with effect from 31 December 2010. The average duration of the defined benefit obligation at the period ended 31 December 2018 is 18 years.

The plan asset scheme of Yorkshire Fittings Pension Scheme holds next to equities, bonds, property and cash also Liability Driven Investments ('LDI'). The LDI aim to hedge 93% of the inflation risk and 74% of the interest rate risk to the liabilities. The asset is classified as 'other net assets' as at 31 December 2018 and as at 31 December 2017.

Together with the trustees, the investment strategy is reviewed at the time of each funding valuation. The Yorkshire Fittings Pension Scheme is subject to a tri-annual actuarial review, in accordance with the scheme funding requirements of the Pensions Act 2004, at which point the future funding strategy is agreed between the trustees and the company. The most recent tri-annual valuation of Yorkshire Fittings Pension Scheme was carried out as at 31 March 2015 and showed a deficit of GBP 36.1 million. The company has agreed with the trustees that it will aim to eliminate the deficit over a period of 11 years from 31 March 2016 by the payment of GBP 1.9 million per annum, increasing by 4% per annum.

The IAS 19 Disclosure Report regarding the Yorkshire Fittings Pension Scheme provided by an independent actuary shows a deficit of GBP 29.9 million as at 31 December 2018 (2017: GBP 30.3 million).

In addition to and in accordance with the actuarial valuations, the Group has agreed with the trustees of the Yorkshire Fittings Pension Scheme that it will meet expenses of the plan and levies to the Pension Protection Fund as and when they are due. Aalberts has issued a parent guarantee, for a maximum amount of GBP 75.0 million and is therefore supportive to the Yorkshire Fittings Pension Scheme.

Hauck Heat Treatment Limited Group Pension Scheme
The Hauck Heat Treatment Limited Group Pension Scheme is a separate trustee administrated fund, holding the pension assets to meet long-term pension liabilities for some 163 past employees as at 31 December 2015. The scheme closed to future accrual with effect from 30 September 2007. The average duration of the defined benefit obligation at the period ended 31 December 2018 is 16 years.

Together with the trustees, the investment strategy is reviewed at the time of each funding valuation. The Hauck Heat Treatment Limited Group Pension Scheme is subject to a tri-annual actuarial review, in accordance with the scheme funding requirements of the Pensions Act 2004, at which point the future funding strategy is agreed between the trustees and the company. The most recent tri-annual valuation of Hauck Heat Treatment Limited Group Pension Scheme was carried out as at 31 December 2015 and showed a deficit of GBP 5.0 million. The company has agreed with the trustees that it will aim to eliminate the deficit over a period of 11 years and 1 month from 1 April 2017 by the payments of annual contributions of GBP 0.5 million in respect of the deficit.

The IAS 19 Disclosure Report regarding the Hauck Heat Treatment Limited Group Pension Scheme provided by an independent actuary shows a deficit of GBP 5.9 million as at 31 December 2018 (2017: GBP 6.2 million).

In addition to and in accordance with the actuarial valuations, the Group has agreed with the trustees of the Hauck Heat Treatment Limited Group Pension Scheme that it will meet expenses of the plans and levies to the Pension Protection Fund as and when they are due. Aalberts has issued a parent guarantee, for a maximum amount of GBP 9.5 million and is therefore supportive to the Hauck Heat Treatment Limited Group Pension Scheme.

18.2 Other provisions and non-current liabilities

	2018	2017
AS AT 1 JANUARY	**44.2**	**37.8**
Additions	1.4	1.0
Used / paid during year	(9.4)	(4.8)
Unused amounts reversed	(6.4)	(0.5)
Acquisition subsidiaries	5.2	17.7
Disposal of subsidiaries	(0.1)	-
Reclassified to current	(8.3)	(4.3)
Unwinding discounts on provisions	0.8	1.3
Currency translation	0.5	(4.0)
AS AT 31 DECEMBER	**27.9**	**44.2**

The other provisions and non-current liabilities are for a large part related to deferred purchase considerations for acquisitions. The total amount of deferred purchase considerations as per 31 December 2018 amounts to EUR 33.0 million (2017: EUR 45.6 million) of which EUR 17.3 million is related to fixed deferred payments and EUR 15.7 million is related to variable earn-out considerations depending on future results. The increase or decrease of the variable earn-out considerations, due to a change of the estimated results by 10%, will be limited to EUR 5.3 million. EUR 21.9 million of the total deferred purchase considerations is included in other provisions and non-current liabilities (2017: EUR 38.5 million) and EUR 11.1 million is included in current liabilities (2017: EUR 7.1 million).

Liabilities related to normal business operations, provisions for restructuring and provisions for environmental restoration amount to EUR 6.0 million as per 31 December 2018 (2017: EUR 5.7 million).

19. Trade and other payables

	31-12-2018	31-12-2017
Trade creditors	311.3	291.7
Investment creditors	23.7	18.1
Customer related payables	82.2	68.6
TOTAL	**417.2**	**378.4**

20. Other current liabilities

	31-12-2018	31-12-2017
Social security charges and taxes	25.4	24.1
Value added tax	7.2	8.0
Accrued expenses	42.4	34.5
Amounts due to personnel	56.4	55.3
Deferred considerations	11.1	7.1
Derivative financial instruments	2.6	1.5
Other	16.4	10.2
TOTAL	**161.5**	**140.7**

The deferred considerations relate to the unpaid part of recent acquisitions and are expected to be paid in full in the first half year 2019.

The derivative financial instruments consist of the following items:	31-12-2018	31-12-2017
Interest rate swap contracts	3.0	1.5
Foreign currency exchange contracts	(0.4)	-
TOTAL	**2.6**	**1.5**

The principal amounts of the outstanding interest rate swap contracts at 31 December 2018 were EUR 445.4 million (2017: EUR 371.3 million), for foreign currency exchange contracts EUR 206.1 million (2017: EUR 143.0 million) and for metal hedging contracts EUR 13.6 million (2017: EUR 14.2 million).

The majority of the outstanding foreign currency exchange and metal hedging contracts has a short-term nature. Interest rate swaps maturity is directly related to the bank borrowings concerned (note 16). The fair value of financial instruments equals the market value at 31 December 2018. All financial instruments are classified as level 2.

The valuation of foreign currency hedging contracts is based on future cash flows which are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. For interest rate swaps the valuation is based on future cash flows which are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties. An assessment had been made of a potential debit situation, however, has not been recorded as adjustment as deemed immaterial. This approach is equal to prior years. For all other items included in other current liabilities, the carrying amount approximates the fair value.

21. Personnel expenses

	2018	2017
Wages and salaries	(656.1)	(625.4)
Social security charges	(116.9)	(115.5)
Defined benefit plans	(1.9)	(1.9)
Defined contribution plans	(16.3)	(16.7)
Other expenses related to employees	(25.3)	(22.2)
TOTAL	**(816.5)**	**(781.7)**

In the year under review, the average number of full-time employees amounted to 16,648 (2017: 16,118) of which 14,609 (2017: 14,228) full-time employees are active outside the Netherlands.

The remuneration of the Management and Supervisory Board is disclosed as part of the company financial statements (note 34.8).

22. Other operating expenses

	2018	2017
Production expenses	(272.1)	(270.0)
Selling expenses	(66.4)	(70.3)
Housing expenses	(46.5)	(43.6)
General expenses	(106.1)	(98.2)
Warranty costs	(2.9)	(3.8)
Other operating income	46.3	11.6
TOTAL	**(447.7)**	**(474.3)**

Other operating income is income not related to the key business activities of the Group and relates to non-recurring items like insurance amounts received to compensate for damaged assets due to fire incidents and business interruption expenses EUR 21.0 million (2017: EUR 0.3 million), book profits on divestments and release of earn-out provisions EUR 15.5 million, government grants EUR 2.5 million (2017: EUR 2.8 million) and other non-recurring items EUR 7.3 million (2017: EUR 8.5 million).

23. Net finance cost

	2018	2017
Interest income	0.6	1.2
Interest expenses:		
Bank borrowings	(17.1)	(17.7)
Finance leases	(0.2)	(0.2)
Total interest expense	**(17.3)**	**(17.9)**
Net interest expense	**(16.7)**	**(16.7)**
Foreign currency exchange results	**(2.7)**	**(5.3)**
Fair value results on financial instruments:		
Interest/foreign currency swaps	0.4	0.1
Metal price hedge contracts	(1.1)	(0.4)
Total fair value results on derivative financial instruments	**(0.7)**	**(0.3)**
Unwinding discounts on provisions	**(0.8)**	**(1.3)**
Net interest expense on employee benefit plans	**(1.5)**	**(1.8)**
NET FINANCE COST	**(22.4)**	**(25.4)**

24. Income tax expense

	2018	2017
Current tax:		
Current year	(73.2)	(83.6)
Prior years	(1.9)	(3.4)
	(75.1)	(87.0)
Deferred tax	9.5	19.0
TOTAL INCOME TAX EXPENSE	**(65.6)**	**(68.0)**

	2018	2017
Profit before tax	**306.4**	**276.4**
Tax calculated at domestic rates applicable to profits	(79.7)	(80.4)
Expenses not deductible for tax purposes	(2.2)	(2.4)
Tax-exempt results and tax relief facilities	7.3	6.3
Other effects	9.0	8.5
TOTAL INCOME TAX EXPENSE	**(65.6)**	**(68.0)**
Effective tax rate	21.4%	24.6%

For 2018 the weighted average applicable domestic tax rate amounted to 26.0% (2017: 29.1%). The line “Other effects” includes a deferred tax benefit resulting from tax rate changes in primarily the Netherlands (EUR 7.1 million). This benefit is partly offset by an increase of the provision for uncertain tax positions.

25. Earnings and dividends per share

	2018	2017
Net profit (in EUR million)	238.2	204.5
Weighted average number of shares in issue (x1)	110,580,102	110,580,102
Basic earnings per share (in EUR)	**2.15**	**1.85**
Net profit (in EUR million)	238.2	204.5
Weighted average number of shares in issue including effect of performance share plan (x1)	110,727,102	110,859,602
Diluted earnings per share (in EUR)	**2.15**	**1.85**
Net profit before amortisation (in EUR million)	274.9	238.2
Weighted average number of shares in issue (x1)	110,580,102	110,580,102
Basic earnings per share before amortisation (in EUR)	**2.49**	**2.15**
Net profit before amortisation (in EUR million)	274.9	238.2
Weighted average number of shares in issue including effect of performance share plan (x1)	110,727,102	110,859,602
Diluted earnings per share before amortisation (in EUR)	**2.48**	**2.15**

The dividends paid in 2018 were EUR 0.65 per share (2017: EUR 0.58 per share). A dividend in respect of the year ended 31 December 2018 of EUR 0.75 per share will be proposed at the General Meeting to be held on 17 April 2019. These financial statements do not reflect this dividend payable.

26. Contingent liabilities

The Group has contingent liabilities in respect of bank and other guarantees arising from the ordinary course of business. It is not anticipated that any material liabilities will rise from the contingent liabilities. The Group has provided guarantees in the ordinary course of business amounting to EUR 15.9 million (2017: EUR 15.1 million) to third parties.

Outstanding commitments related to the purchase of copper, brass and aluminium for the European Installation Technology and Climate Technology operations amounted to EUR 61.4 million as at year-end (2017: EUR 62.2 million).

27. Operational lease and rent commitments

	2018	2017
Due in less than 1 year	31.9	32.3
Due between 1 and 5 years	78.2	70.4
Due from 5 years or more	62.1	47.3
TOTAL COMMITMENTS	**172.2**	**150.0**

28. Business combinations

28.1 Acquisition of subsidiaries

The following Group companies were acquired in 2018:

Group company	Head office in	Consolidated as from	Interest	Group activity
Protection Electrolytique des Métaux S.A.S.	France	June 2018	100%	Material Technology
VAF Instruments B.V.	The Netherlands	July 2018	100%	Industrial Technology
Roy Metal Finishing Company, Inc.	United States	September 2018	100%	Material Technology
Co-Planar, Inc.	United States	September 2018	100%	Material Technology

Acquisition Protection Electrolytique des Métaux S.A.S. (France)

Aalberts acquired 100% of the shares of Protection Electrolytique des Métaux S.A.S. ('PEM') based in Siaugues St. Romain (France) as of June 2018. PEM generates an annual revenue of approximately EUR 22 million with 180 FTE.

PEM is specialised in reel-to-reel surface treatment of metals, enabling a reduced use of raw materials, applying a precise thickness of metals like copper, nickel, tin, silver and gold on metal strips. Its highly efficient surface treatment technologies run at a high speed and also provide customised masking. PEM has a leading market position in this specialised technology with a strong focus on R&D, dedicated machine know-how and a customised innovative approach. PEM operates from three production sites near Lyon, France. It has a reputable customer base and focuses on the automotive, general industries and aerospace end markets. The reel-to-reel surface technology is growing worldwide through many new applications and innovations. PEM and Aalberts are able to accelerate the business through the global service network of Aalberts surface treatment. The existing management team of PEM will continue to manage the company and drive the expansion plans.

Acquisition VAF Instruments B.V. (the Netherlands)

Aalberts acquired 100% of the shares of VAF Instruments B.V. (VAF) as of July 2018. The company with 85 employees based in Dordrecht (the Netherlands), generates an annual revenue of approximately EUR 20 million.

VAF is a manufacturer of high-tech sensors and measurement systems with own R&D facilities for the general industries and power generation end markets. VAF has a global leading position in marine measurement systems, enabling shipowners to increase fuel efficiency and to reduce the carbon footprint. VAF solutions also enable ship operators to optimise maintenance schedules and costs. VAF is well known for its application knowhow, innovative customer approach and global 24/7 service. The experienced management team of VAF will continue to manage the company and drive further innovative growth together with Aalberts. VAF will strengthen our Aalberts fluid control activities and will bring knowledge of high-tech sensors, measurement systems and performance management software engineering to the Aalberts portfolio, which can be valuable in other applications. The global service network and customer base will strongly improve our position in the marine and power generation end markets, where other activities of Aalberts can take advantage of.

Acquisition Roy Metal Finishing Company, Inc. (United States)

Aalberts acquired 100% of the shares of Roy Metal Finishing Company, Inc. (RMF) as of September 2018. RMF is based in Greenville, South Carolina (United States) and generates an annual revenue of approximately USD 30 million with 200 FTE.

RMF operates from three service locations and is specialised in corrosion protection surface technologies for the automotive, general industries and aerospace end markets. The service locations are strategically positioned near many OEMs in the south-eastern region of the USA. RMF is an industry leader in areas of process technology, innovation, customer service and operational efficiency. While working in close cooperation with its customers, RMF's process development team continuously focuses on R&D and improving their self-developed surface treatment lines. The experienced management team of RMF will continue to manage the company. They will also drive a jointly made business plan aimed at expanding our Aalberts surface treatment business in North America. We will add new surface treatment technologies to the portfolio, accelerate business with our global Key Accounts and further expand our Aalberts surface treatment service network.

Acquisition Co-Planar, Inc. (United States)

Aalberts acquired 100% of the shares of Co-Planar, Inc. (Co-Planar) as of September 2018. Co-Planar is based in New Jersey (United States) and Querétaro (Mexico) and generates an annual revenue of approximately USD 9 million.

Co-Planar is a specialist in complex precision stamping with very good technical knowledge on accurate and high-speed stamping. Aalberts material technology is a worldwide leading market player in complex precision stamping (Metalis) combined with heat and surface treatments. The acquisition of Co-Planar enables Aalberts to expand with Key Accounts in United States and Mexico. The experienced management of Co-Planar will continue to lead the company and will become part of the Metalis organisation.

28.2 Assets acquired and liabilities recognised at acquisition date

As at acquisition date the fair values of assets, liabilities and cash flow on account of these acquisitions were as follows:

Fair values of assets and liabilities arising from business combinations	Material Technology	Industrial Technology	Total
Intangible assets	17.0	48.1	**65.1**
Property, plant and equipment	34.8	0.8	**35.6**
Inventories	4.9	1.7	**6.6**
Receivables and other current assets	12.1	5.2	**17.3**
Cash and current borrowings	9.4	(2.5)	**6.9**
Bank borrowings	(2.7)	–	**(2.7)**
Net deferred tax asset/(liability)	(1.8)	(12.0)	**(13.8)**
Provisions	(0.4)	(0.2)	**(0.6)**
Payables and other current liabilities	(10.9)	(1.6)	**(12.5)**
Net assets acquired	**62.4**	**39.5**	**101.9**
Purchase consideration settled in cash	80.7	77.1	**157.8**
Deferred purchase consideration	2.7	5.0	**7.7**
Total purchase consideration	**83.4**	**82.1**	**165.5**
GOODWILL	**21.0**	**42.6**	**63.6**
Purchase consideration settled in cash	(80.7)	(77.1)	**(157.8)**
Cash and current borrowings	9.5	(2.5)	**7.0**
CASH OUTFLOW ON ACQUISITIONS	**(71.2)**	**(79.6)**	**(150.8)**

Acquisitions 2018

The fair values of the identifiable assets and liabilities as at acquisition date for the acquisitions in 2018 are based on the outcome of the preliminary purchase price allocations. Therefore, the fair values of the identifiable assets and liabilities were determined provisionally and are subject to change. The purchase price allocations will be finalised within 12 months from the applicable acquisition dates.

The total purchase consideration of EUR 165.5 million includes a deferred purchase consideration of EUR 7.7 million. This is related to fixed deferred payments and agreed upon additional considerations depending on the results for the years 2018 and 2019. The deferred purchase consideration relating to these transactions represents its fair value as at acquisition date. The non-current part of the deferred purchase considerations is recognised as part of the other provisions and non-current liabilities.

The goodwill of EUR 63.6 million connected to the acquired business mainly includes amounts related to the benefit of anticipated synergies, future market developments and knowhow. The goodwill arising on these acquisitions is not tax deductible.

The cash outflow on acquisitions of EUR 150.8 million includes the consideration paid in cash during 2018 of EUR 157.8 million adjusted for the cash and current balances acquired. Total cash outflow on acquisitions of EUR 165.8 million includes the contingent purchase considerations with respect to prior year acquisitions that were paid in cash during 2018 for a total amount of EUR 15.0 million.

The nominal value of the acquired receivables at acquisition dates amounts to EUR 17.6 million (fair value EUR 17.3 million).

Prior year acquisitions

In 2017 the following Group companies were acquired:

Group company	Head office in	Consolidated as from	Interest	Group activity
Vin Service S.r.l.	Italy	January 2017	100%	Industrial Technology
Pneu/tec B.V.	The Netherlands	July 2017	100%	Industrial Technology

The fair values of the identifiable assets and liabilities of Pneutec at acquisition date were only determined provisionally by the end of 2017 based on the outcome of the preliminary purchase price allocation. The purchase price allocations were finalised in 2018 within 12 months from the respective acquisition dates. This has not led to changes in the fair value.

28.3 Contribution of business combinations

The increase of the 2018 revenue due to the consolidation of acquisitions amounted to EUR 36.7 million. The contribution to the 2018 operating profit of Aalberts amounted to EUR 6.3 million.

Had these acquisitions been effected at 1 January 2018, the contribution to the 2018 revenue would have been EUR 81.7 million (pro forma). The contribution to the operating profit for the year would have been EUR 15.7 million (pro forma).

28.4 Acquisition related costs

The Group incurred acquisition related costs such as external legal fees and due diligence costs for an amount of EUR 0.6 million (2017: EUR 0.5 million). These costs have been excluded from the purchase consideration and have been recognised as an expense in the current year within the general expenses line item (operating expenses).

28.5 Disposal of subsidiaries

In 2018, Aalberts divested the retail activities in the United States within Installation Technology as well as the surface treatment activities in Australia and the entity Nowak S.A.S. (France) within Material Technology. These non-core activities were divested as part of the overall Group strategy.

The book value of the assets and liabilities disposed of and the cash flow impact in 2018 is as follows:

Book value of the assets and liabilities disposed	Installation Technology	Material Technology	**Total**
Goodwill	–	0.4	**0.4**
Property, plant and equipment	0.4	9.4	**9.8**
Inventories	16.6	4.3	**20.9**
Receivables and other current assets	4.3	2.7	**7.0**
Cash and current borrowings	–	5.0	**5.0**
Net deferred tax asset/(liability)	–	0.3	**0.3**
Provisions	–	(0.9)	**(0.9)**
Payables and other current liabilities	–	(3.0)	**(3.0)**
Net assets disposed	**21.3**	**18.2**	**39.5**
Consideration settled in cash	20.5	18.8	**39.3**
Deferred consideration	6.1	3.1	**9.2**
Total consideration	**26.6**	**21.9**	**48.5**
Consideration settled in cash	20.5	18.8	**39.3**
Cash and current borrowings	–	(5.0)	**(5.0)**
CASH INFLOW FROM DISPOSALS	**20.5**	**13.8**	**34.3**

The transactions were closed in 2018 and resulted in a net cash inflow of EUR 34.3 million and a deferred consideration of EUR 9.2 million. The book profit on these disposals after related expenses amounted to EUR 8.5 million and is recognised in other operating income (see note 22).

The contribution of the disposed activities to the 2018 revenue amounted to EUR 46.5 million. The contribution to the 2018 operating profit amounted to EUR 5.6 million.

29. Overview of significant subsidiaries

The consolidated financial statements of Aalberts include the assets and liabilities of more than 200 legal entities. The overview on page 136 and 137 shows the most important operational legal entities including the country in which their main operations are located. They all are wholly owned subsidiaries, unless indicated otherwise.

30. Related parties

The Management Board and the Supervisory Board are considered key management. Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The total remuneration of key management in 2018 amounts to EUR 6.3 million (2017: EUR 5.4 million). No material transactions have been executed other than intercompany transactions and remuneration, as stated in note 34.8, under normal business conditions. The divested retail activities in the United States were transferred to the former owner, who is still employed for the Group.

31. Subsequent events

There are no subsequent events to report.

32. Company balance sheet (before profit appropriation)

in EUR million	Notes	31-12-2018	31-12-2017
ASSETS			
Intangible assets		0.3	0.4
Tangible fixed assets		2.2	–
Investments in subsidiaries	34.2	1,763.7	1,561.3
Fixed assets		**1,766.2**	**1,561.7**
Other debtors, prepayments and accrued income	34.3	10.9	11.7
Cash and cash equivalents		–	0.2
Current assets		**10.9**	**11.9**
TOTAL ASSETS		**1,777.1**	**1,573.6**
EQUITY AND LIABILITIES			
Issued and paid-up share capital		27.6	27.6
Share premium account		200.8	200.8
Other reserves		1,229.7	1,102.5
Currency translation and hedging reserve		(44.7)	(45.1)
Retained earnings		238.2	204.5
Shareholders' equity	34.4	**1,651.6**	**1,490.3**
Deferred taxation		2.4	1.8
Non-current liabilities		**2.4**	**1.8**
Current borrowings		117.8	77.2
Trade creditors		1.0	0.5
Taxation and social security charges		–	0.1
Payables to Group companies, other payables, accruals and deferred income		4.3	3.7
Current liabilities		**123.1**	**81.5**
TOTAL EQUITY AND LIABILITIES		**1,777.1**	**1,573.6**

33. Company income statement

in EUR million	Notes	2018	2017
Management fees		7.2	7.9
Personnel expenses	34.5	(7.5)	(6.9)
Housing expenses		(0.5)	(0.3)
General expenses		(5.4)	(6.4)
Amortisation of intangible assets		(0.1)	(0.1)
NET OPERATING EXPENSES		**(6.3)**	**(5.8)**
OPERATING PROFIT / (LOSS)		**(6.3)**	**(5.8)**
Net interest income / (expense)		(1.0)	(0.4)
PROFIT / (LOSS) BEFORE INCOME TAX		**(7.3)**	**(6.2)**
Income tax benefit / (expense)	34.6	3.1	4.1
Result subsidiaries		242.4	206.6
PROFIT / (LOSS) AFTER INCOME TAX		**238.2**	**204.5**

34. Notes to the company financial statements

34.1 Accounting principles

The company financial statements of Aalberts Industries N.V. ("Aalberts") are prepared in accordance with Generally Accepted Accounting Principles in the Netherlands and compliant with the requirements included in Part 9 of Book 2 of the Dutch Civil Code. As from 2005, Aalberts prepares its consolidated financial statements according to International Financial Reporting Standards (IFRS) as adopted by the European Union.

In accordance with article 362 sub 8 of Part 9, Book 2 of the Dutch Civil Code, we have prepared our company financial statements in accordance with Dutch GAAP applying the accounting principles as adopted in the consolidated financial statements, except for the accounting for investments in subsidiaries. Subsidiaries of the parent company are accounted for using the net equity value. In case of a negative net equity value of a subsidiary, the negative value is deducted from the loan due from the respective subsidiary. The subsidiaries are stated at net asset value, based upon policies applied in the consolidated financial statements.

A list of subsidiaries is available at the Chamber of Commerce (Netherlands). Aalberts Industries N.V. is registered with the Dutch Commercial Register under number 30089954.

The share in the result of participating interests consists of the share of the company in the result of these participating interests. Results on transactions involving the transfer of assets and liabilities between the company and its participating interests and mutually between participating interests themselves, are eliminated to the extent that they can be considered as not realised.

34.2 Investments in subsidiaries

	2018	2017
AS AT 1 JANUARY	**1,561.3**	**1,402.0**
Share in profit	242.4	206.6
Capital contribution / (repayment)	22.0	4.3
Dividends paid	(61.0)	(26.0)
Currency translation and remeasurements	(1.0)	(25.6)
AS AT 31 DECEMBER	**1,763.7**	**1,561.3**

34.3 Other debtors, prepayments and accrued income

	31-12-2018	31-12-2017
Intercompany debtors	0.7	0.9
Prepaid and accrued income	0.3	0.6
Current tax receivable	9.9	10.2
TOTAL DEBTORS	**10.9**	**11.7**

Intercompany transactions are determined on an arm's length basis.

34.4 Shareholders' equity

	Issued and paid-up share capital	Share premium	Other reserves	Currency translation and hedging reserve	Retained earnings	**Total shareholders' equity**
AS AT 1 JANUARY 2017	**27.6**	**200.8**	**974.3**	**(12.2)**	**182.6**	**1,373.1**
Dividend 2016	–	–	–	–	(64.1)	**(64.1)**
Addition to other reserves	–	–	118.5	–	(118.5)	**–**
Share based payments	–	–	2.4	–	–	**2.4**
Profit financial year	–	–	–	–	204.5	**204.5**
Remeasurements of employee benefit obligations	–	–	8.9	–	–	**8.9**
Currency translation differences	–	–	–	(35.1)	–	**(35.1)**
Fair value changes derivative financial instruments	–	–	–	2.9	–	**2.9**
Income tax effect on direct equity movements	–	–	(1.6)	(0.7)	–	**(2.3)**
AS AT 31 DECEMBER 2017	**27.6**	**200.8**	**1,102.5**	**(45.1)**	**204.5**	**1,490.3**
Dividend 2017	–	–	–	–	(71.9)	**(71.9)**
Addition to other reserves	–	–	132.6	–	(132.6)	**–**
Share based payments	–	–	(4.0)	–	–	**(4.0)**
Profit financial year	–	–	–	–	238.2	**238.2**
Remeasurements of employee benefit obligations	–	–	(1.2)	–	–	**(1.2)**
Currency translation differences	–	–	–	1.6	–	**1.6**
Fair value changes derivative financial instruments	–	–	–	(1.6)	–	**(1.6)**
Income tax effect on direct equity movements	–	–	(0.2)	0.4	–	**0.2**
AS AT 31 DECEMBER 2018	**27.6**	**200.8**	**1,229.7**	**(44.7)**	**238.2**	**1,651.6**

The authorised share capital amounts to EUR 50.0 million divided into:
- 200,000,000 ordinary shares of EUR 0.25 par value each; and
- 100 priority shares of EUR 1.00 par value each

The issued and paid-up share capital did not change in the course of the year under review. As at 31 December 2018, a total of 110,580,102 ordinary shares and 100 priority shares were issued and paid-up. The currency translation and hedging reserve is not to be used for profit distribution.

Profit appropriation

In accordance with the resolution of the General Meeting held on 18 April 2018, the profit for 2017 has been appropriated in conformity with the proposed appropriation of profit stated in the 2017 financial statements.

The net profit for 2018 attributable to the shareholders amounting to EUR 238.2 million shall be available in accordance with the articles of association.

The Management Board proposes to declare a dividend of EUR 0.75 solely in cash per share of EUR 0.25 par value. Any residual profit shall be added to reserves.

34.5 Personnel expenses

	2018	2017
Wages and salaries	(6.3)	(5.7)
Social security charges	(0.2)	(0.3)
Defined contribution plans	(0.7)	(0.7)
Other expenses related to employees	(0.3)	(0.2)
TOTAL	**(7.5)**	**(6.9)**

The average number of employees amounted to 22.8 full time equivalents (2017: 22.6), as at year-end 23.8 (2017: 20.4).

34.6 Income tax benefit / (expense)

	2018	2017
Current tax:		
Current year	3.9	3.3
Prior years	(0.2)	0.4
Deferred tax	(0.6)	0.4
TOTAL INCOME TAX BENEFIT / (EXPENSE)	**3.1**	**4.1**

34.7 Audit fees

The following amounts are charged as audit fees by Deloitte Accountants B.V. and its member firm and/or affiliates and included in other operating expenses (amounts in EUR 1,000).

2018	Deloitte Accountants B.V.	Other Deloitte Network	**Total Deloitte**
Audit of annual accounts	685	2,065	**2,750**
Other audit services	–	18	**18**
Tax advisory services	–	122	**122**
Other non-audit services	–	2	**2**
TOTAL	**685**	**2,207**	**2,892**

2017	Deloitte Accountants B.V.	Other Deloitte Network	**Total Deloitte**
Audit of annual accounts	580	2,000	**2,580**
Other audit services	–	12	**12**
Tax advisory services	–	166	**166**
Other non-audit services	–	–	**–**
TOTAL	**580**	**2,178**	**2,758**

The fees listed above relate to the services applied to the Company and its consolidated Group entities by accounting firms and independent external auditors as referred to in Section 1(1) of the Dutch Audit Firms (Supervision) Act (Wta), as well as by Dutch and foreign-based audit firms, including their tax services and advisory groups.

34.8 Remuneration of the Management and Supervisory Board (amounts in EUR 1,000)

The total remuneration of the members of the Management Board for 2018 amounted to EUR 6.1 million (2017: EUR 5.2 million) and is determined in accordance with the remuneration policy as disclosed in the Report of the Supervisory Board.

Mr. W.A. Pelsma (CEO) received a salary of EUR 750 (2017: EUR 720), a bonus amounting to EUR 562 (2017: EUR 540) and a pension contribution of EUR 129 (2017: EUR 111). At year-end he held a total number of 114,075 (2017: 95,075) ordinary shares in Aalberts. The number of conditional performance share awards that were granted in 2017 (PSP 2017-2019) amounted to 35,000 shares for which EUR 413 (2017: EUR 265) was charged to the income statement. Of the 30,000 conditional shares that were granted in 2015 (PSP 2015–2017), a total of 37,500 shares (125%) vested in 2018, for which EUR 290 (2017: EUR 280) was charged to the income statement.

Mr. J. Eijgendaal (CFO) received a salary of EUR 600 (2017: EUR 570), a bonus amounting to EUR 450 (2017: EUR 427) and a pension contribution of EUR 90 (2017: EUR 88). At year-end he held a total of 170,000 (2017: 150,000) ordinary shares in Aalberts. The number of conditional performance share awards that were granted in 2017 (PSP 2017-2019) amounted to 27,000 shares for which EUR 319 (2017: EUR 204) was charged to the income statement. Of the 25,000 conditional shares that were granted in 2015 (PSP 2015–2017), a total of 31,250 shares (125%) vested in 2018, for which EUR 237 (2017: EUR 229) was charged to the income statement.

Mr. O.N. Jäger (Executive Director) received a salary of EUR 490 (2017: EUR 460) and a bonus amounting to EUR 367 (2017: EUR 345). At year-end he held a total of 30,807 (2017: 12,057) ordinary shares in Aalberts. The number of conditional performance share awards that were granted in 2017 (PSP 2017-2019) amounted to 15,000 shares for which EUR 177 (2017: EUR 114) was charged to the income statement. Of the 15,000 conditional shares that were granted in 2015 (PSP 2015–2017), a total of 18,750 shares (125%) vested in 2018, for which EUR 142 (2017: EUR 137) was charged to the income statement.

Mr. A.R. Monincx (Executive Director) received a salary of EUR 420 (as of 1 May 2017: EUR 240), a bonus amounting to EUR 312 (as of 1 May 2017: EUR 180) and a pension contribution of EUR 62 (as of 1 May 2017: EUR 35). At year-end he held a total of 6,250 (2017: 3,475) ordinary shares in Aalberts. The number of conditional performance share awards that were granted in 2017 (PSP 2017-2019) amounted to 15,000 shares for which EUR 177 (2017: EUR 114) was charged to the income statement. Of the 10,000 conditional shares that were granted in 2015 (PSP 2015–2017), a total of 12,500 shares (125%) vested in 2018, for which EUR 96 (2017: EUR 93) was charged to the income statement.

Additional information regarding conditional performances share awards is disclosed in note 15.3.

The share price of Aalberts as at 31 December 2018 amounted to EUR 29.05 per ordinary share.

The following fixed individual remunerations were paid to (former) members of the Supervisory Board:

	2018	2017
M.C.J. van Pernis	65	58
M.J. Oudeman	55	39
P. Veenema	50	46
J. van der Zouw	55	49
H. Scheffers	-	17
TOTAL	**225**	**209**

No loans, advances or guarantees have been granted to the members of the Management Board and the Supervisory Board. No options have been granted to members of the Supervisory Board and at year-end they did not hold any shares in Aalberts.

34.9 Liability

The company has guaranteed the liabilities of almost all of its Dutch Group companies in accordance with the provisions of article 403, paragraph 1, Book 2, Part 9 of the Dutch Civil Code. Consequently, these companies are exempt from publication requirements. The company forms a tax unity with almost all of its Dutch subsidiaries for both the income tax and value added tax. The company therefore is liable for the tax obligations of the tax unity as a whole.

Starting for the year 2016 several German subsidiaries as listed below will make use of the § 264 HGB / § 291 HGB exemption rules of filing their own (consolidated) financial statements.

Name and seat of the company	Direct and indirect participation %
Aalberts Industries (Deutschland) GmbH, Gelsenkirchen	100%
Aalberts Industries Grundstücksverwaltungsgesellschaft mbH, Gelsenkirchen	100%
D.S.I. Getränkearmaturen GmbH, Hamm	100%
BROEN GmbH, Gelsenkirchen	100%
VTI Ventil Technik GmbH, Menden	100%
Simplex Armaturen & Systeme GmbH, Argenbühl-Eisenharz	100%
Seppelfricke Service GmbH, Gelsenkirchen	100%
Seppelfricke Armaturen GmbH, Gelsenkirchen	100%
Seppelfricke Vertriebs + Produktions GmbH, Gelsenkirchen	100%
Meibes System-Technik GmbH, Machern OT Gerichshain	100%
ISIFLO GmbH, Hemer	100%
Integrated Dynamics Engineering GmbH, Raunheim	100%
Aalberts Material Technology GmbH, Kerpen	100%
Aalberts Surface Treatment GmbH, Kerpen	100%
MT Grundstücksverwaltungs GmbH, Kerpen	100%
Aalberts Surface Treatment GmbH, Solingen	100%

Name and seat of the company	Direct and indirect participation %
Aalberts Surface Treatment GmbH, Burg	100%
Aalberts Surface Treatment GmbH, Villingen-Schwenningen	100%
Aalberts Surface Treatment GmbH, Zwönitz	100%
Aalberts Surface Treatment GmbH, Moers	100%
Hauck Heat Treatment GmbH, Remscheid	100%
Hauck Heat Treatment Süd GmbH, Gaildorf	100%
Impreglon GmbH, Kerpen	100%
Aalberts Surface Treatment GmbH, Lüneburg	100%
Aalberts Surface Treatment GmbH, Landsberg am Lech	100%
Aalberts Surface Treatment GmbH, Jessenitz	100%
Aalberts Surface Treatment GmbH, Lübeck	100%
Hauck Heat Treatment GmbH, Dunningen	100%
Aalberts Surface Treatment GmbH, Wünschendorf/Elster	100%
Aalberts Surface Treatment GmbH, Zwickau	100%
Aalberts Surface Treatment GmbH, Würzburg	100%
Aalberts Surface Treatment GmbH, Kaufbeuren	100%

The company has guaranteed the non-current borrowings and the current portion of the non-current borrowings of the Group companies for an amount of EUR 566.1 million (2017: EUR 525.1 million). In addition, the company has guaranteed the two UK defined benefit Pension Schemes for an amount of EUR 94.0 million (2017: EUR 95.1 million). The total operational lease and rent commitments amount to EUR 5.6 million (2017: EUR 5.6 million).

Utrecht, 25 February 2019

The Management Board
Wim Pelsma (CEO)
John Eijgendaal (CFO)
Oliver Jäger (Executive Director)
Arno Monincx (Executive Director)

The Supervisory Board
Martin van Pernis (Chairman)
Marjan Oudeman (Member)
Piet Veenema (Member)
Jan van der Zouw (Member)

Other information

1. Special controlling rights under the Articles of Association

One hundred issued and paid-up priority shares are held by Stichting Prioriteit 'Aalberts Industries N.V.', whose board members consist of Management Board and Supervisory Board members of Aalberts Industries N.V. and an independent board member. A transfer of priority shares requires the approval of the Management Board.

- Every board member who is also a member of the Management Board of Aalberts Industries N.V. has the right to cast as many votes as there are board members present or represented at the meeting who are also members of the Supervisory Board of Aalberts Industries N.V.
- Every board member who is also a member of the Supervisory Board of Aalberts Industries N.V. has the right to cast as many votes as there are board members present or represented at the meeting who are also members of the Management Board of Aalberts Industries N.V.
- The independent member of the board of Stichting Prioriteit 'Aalberts Industries N.V.' has the right to cast a single vote and can decide in the event of a tied vote of the board.

The following principal powers are vested in the holders of priority shares:

- authorisation of every decision to issue shares;
- authorisation of every decision to designate a corporate body other than the General Meeting to issue shares;
- authorisation of every decision to limit or exclude the preferential rights of shareholders in the event of an issue of shares;
- authorisation of every decision to repurchase paid-up shares in the capital of the company or depositary receipts thereof for no consideration or subject to conditions;
- authorisation of every decision to dispose of shares held by the company in its own capital;
- authorisation of every decision to reduce the issued capital through the cancellation of shares or through a decrease in the par value of shares by amending the Articles of Association;
- determination of the number of members of the Management Board;
- to make a binding nomination to the General Meeting concerning the appointment of members of the Management Board and Supervisory Board;
- to approve the sale of a substantial part of the operations of the company;
- to approve acquisitions that would signify an increase of more than 15% in the company's revenue, or that would involve more than 10% of the company's balance sheet total;
- to approve the borrowing of funds that would involve an amount of EUR 100 million or more; and
- to approve a change in the Articles of Association, a legal merger, a split-up or the dissolution of the company.

The full text of the Articles of Association of Aalberts Industries N.V. can be found on the website: aalberts.com/governance.

2. Independent auditor's report

To the Shareholders and Supervisory Board of Aalberts Industries N.V.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2018 INCLUDED IN THE ANNUAL REPORT

Our opinion

We have audited the accompanying financial statements 2018 of Aalberts Industries N.V. ('the company' or 'the group'), based in Utrecht. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Aalberts Industries N.V. as at 31 December 2018, and of its result and its cash flows for 2018 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 Aalberts Industries N.V. as at 31 December 2018, and of its results for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated balance sheet as at 31 December 2018.
2. The following statements for 2018: the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

4. The company balance sheet as at 31 December 2018.
5. The company income statement for 2018.
6. The notes comprising a summary of the significant 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 Aalberts Industries N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at € 15 million (2017: € 12.5 million). The materiality is based on 5.5% of the 2017 profit before income 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 quantitative and/or qualitative reasons. The materiality increased compared to previous year to align with the company's growth.

At year end we have reassessed the group materiality based on the actual 2018 profit before income tax. Based on our reassessment, we concluded that the applied materiality of € 15 million for the financial statements as a whole is still appropriate.

Audits of group entities (components) were performed using materiality levels determined by the judgement of the group audit team, taking into account the materiality of the financial statements as a whole and the reporting structure within the group. Component materiality did not exceed 60% of the group materiality and for most components, the materiality applied is significantly lower than this level.

We agreed with the Supervisory Board that misstatements in excess of € 0.5 million (2017: € 0.5 million) 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

Aalberts Industries N.V. is at the head of a group of entities in more than 50 countries. Aalberts Industries N.V. is structured in four business segments, ten technologies, fifteen business teams and ten end markets. The financial information of this group is included in the consolidated financial statements of Aalberts Industries N.V. No component individually contributes more than 15% of the consolidated revenues of the group.

Our group audit mainly focused on the significant entities within the group. Our assessment of entities that are significant to the group was done as part of our audit planning and was aimed to obtain sufficient coverage of the risks of a material misstatement for the significant account balances, classes of transactions and disclosures that we have identified. In addition, we considered qualitative factors as part of our assessment. In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components by the group audit team and by the component auditors.

Where the work was performed by component auditors, we determined the level of involvement that we needed to have in the audit work at those components, to be able to conclude whether sufficient appropriate audit evidence has been obtained, as a basis for our opinion on the financial statements as a whole. The group audit engagement team provided detailed audit instructions to the component auditors, directed the planning, visited multiple components (China, Germany, the Netherlands, United Kingdom and the United States), performed file reviews, reviewed the results of the work undertaken by component auditors and assessed and discussed the findings with the component auditors during conference calls and site visits.

The group entities subject to full-scope audits and audits of specified account balances comprised approximately 85% of consolidated revenues and approximately 88% of consolidated total assets. For the remaining entities we performed review and analytical procedures at a component and group level.

The group consolidation, financial statements disclosures and certain centrally coordinated subjects were audited by the group audit engagement team. These include among other matters: impairment testing on goodwill, corporate income tax, acquisitions and divestments, share-based payments and claims and litigations. Specialists were involved, among other things: in the areas of tax, information technology, accounting and valuation.

Through the procedures mentioned above performed by the component auditors, 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.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, 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.

key audit matter: international group structure and coordination of the group audit

Description

As described in the "Scope of our group audit" paragraph, Aalberts Industries N.V. is operating in a large number of countries and consequently in order to be able to conclude on the audit of the consolidated statements, we are dependent on the work performed by component auditors. The coordination of the global audit is the most significant part of our audit engagement and as such we have consequently identified this as a key audit matter.

This key audit matter is specifically pinpointed in obtaining an understanding of the group structure, management's risk assessment and control environment, the scope and risk assessment of audit procedures performed at the component level as well as our ability as group auditors to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement, whether caused by fraud, non-compliance or error.

How this key audit matter was addressed in the audit
As part of obtaining an understanding of the group, we made inquiries with the Management Board and business team management, those charged with governance and others within the company regarding the risk of material misstatements due to errors, fraud and/or non-compliance with laws and regulations. We also obtained an understanding of the process for identifying and responding to these risks, including the relevant groupwide policies and procedures.

In our centralized risk assessment, the determination of our group audit scope and component auditor instructions we have specifically focused on risks in relation to these risks.

At group and component level we:
- held discussions with component audit teams and Aalberts' management and key employees regarding fraud and/or non-compliance with laws and regulations;
- evaluated the company's internal control environment, including entity level controls and monitoring controls at group, segment and operating level;
- extended our involvement in local audit work performed by the component auditors by organizing site visits, periodic progress meetings, attending closing meetings, reviewing submitted interoffice reporting and conducting file reviews.

Observation
We observed that management has strengthened the control environment in the last couple of years by introducing management teams at business levels, extending centralized support functions (Internal Audit, Legal & Governance, Tax and Treasury) and implementating a group-wide internal control framework. We have been able to obtain sufficient and appropriate audit evidence about the work performed by component auditors and have communicated any observations, including those related to internal control, to the Management Board and the Supervisory Board.

We believe that the scope and nature of our procedures performed were appropriate and sufficient to address the risks related to the global group structure.

key audit matter: goodwill impairment test

Description
As at 31 December 2018, the company's goodwill carrying balance is € 809 million (2017: € 741 million). Under IAS 36 "Impairment of Assets", the group is required to annually perform an impairment test.

The value-in-use of goodwill is dependent on expected future cash flows from the underlying Cash Generating Units (CGUs) for goodwill. The impairment assessment prepared by management includes a variety of internal and external factors, representing significant estimates that require the use of valuation models and a significant level of management judgement, particularly the assumptions related to the weighted average cost of capital and the perpetual growth rates.

Due to the significance of the goodwill and its dependence on management judgment, we considered this area to be a key audit matter.

How this key audit matter was addressed in the audit
We obtained an understanding of the process in place and identified controls in the impairment assessment for goodwill. We obtained management's impairment assessment and have evaluated the impairment models. Management concluded that no impairment on goodwill was needed.

We challenged management's key assumption used for cash flows projections, weighted average cost of capital and perpetual growth rates. We compared rates in use with historical trends and external data and performed sensitivity analyses. We reconciled forecasted cash flows per CGU to authorized budgets and obtained an understanding how these budgets were compiled.

Our valuation specialists assisted us in challenging the discount rates, future growth rates, and other rates applied by benchmarking against independent data.

We also evaluated the adequacy of the company's related disclosures in note 10.1 to the consolidated financial statements.

Observation
Our audit procedures did not result in any reportable matters in relation |to the goodwill recorded at 31 December 2018 and the disclosures made in note 7.30.1 and note 10.1.

key audit matter: significant one-off transactions

Description
Significant one-off transactions and/or events outside the normal course of business require additional management attention to ensure that such effects are appropriately recognized and disclosed in the consolidated financial statements.

During 2018, several of significant one-off transactions were identified, including:
- The acquisition of four entities and related purchase price allocation calculation, as disclosed in note 28.1-4 of the annual report.
- The divestment of activities and related gains as disclosed in note 28.5 of the annual report.
- Other income from insurance proceeds following business interruptions, as disclosed in notes 7.23 and 22 of the annual report.

Due to the relative significance of these non-recurring events, we have considered the accounting and disclosure of such events a key audit matter.

How this key audit matter was addressed in the audit
During the year we discussed significant one-off transactions with the Management Board and Audit Committee to understand the background and impact of these transactions.

When deemed necessary, we visited the newly acquired companies as well as locations that were affected by divestments or by a business interruption. In addition, we obtained and reviewed management's position papers, explaining the accounting and disclosure for these one-off transactions.

Furthermore, we performed tailored audit procedures for these transactions and events to ensure that they are accounted for in accordance with IFRS-EU. These procedures included the verification of certain transactions with accounting records, contractual information, invoices and correspondence with insurance companies. For the acquisitions we involved our valuation experts to assist us in evaluating the assumptions and methodologies used in the (preliminary) purchase price allocation calculation.

Observation
We have no reportable findings with respect to the accounting and disclosure in the financial statements of these one-off transactions that occurred in 2018.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL ACCOUNTS

In addition to the financial statements and our auditor's report, the annual report contains other information that consists of:
- Report of the Management Board.
- Report of the Supervisory Board.
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:
- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

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

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard on Auditing 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Management Board is responsible for the preparation of the other information, including the report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement
We were initially appointed by the General Meeting of Aalberts Industries N.V. for the audit of financial year 2015. For the audit of 2018 we were appointed by the General Meeting held on 18 April 2017.

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 audit of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of the Management and the Supervisory Board for the financial statements
The Management Board 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, and for the preparation of the report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as the Management Board 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 Management Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Management Board should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations or has no realistic alternative but to do so.

The Management Board 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 assignment 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.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters: the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the Audit Committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 25 February 2019

Deloitte Accountants B.V.

Signed by: B.E. Savert

overview group companies

The consolidated financial statements of Aalberts include the assets and liabilities of more than 200 legal entities. Set out below is an overview of the most important operational legal entities including the country of the main activity. All of the subsidiaries are 100% owned, unless indicated otherwise.

installation technology

Conbraco Industries, Inc.	USA
Elkhart Products Corporation	USA
Henco Industries N.V.	BEL
ISIFLO AS	NOR
KAN Sp. z.o.o. (51%)	POL
LASCO Fittings, Inc.	USA
Pegler Yorkshire Group Limited	GBR
Shurjoint Metals, Inc.	TWN
VSH Fittings B.V.	NLD

material technology

Aalberts Surface Treatment Corp.	USA
Aalberts Surface Treatment GmbH	DEU
Hauck Heat Treatment GmbH	DEU
Metalis S.A.S.	FRA
Mifa Aluminium B.V.	NLD
Roy Metal Finishing Company, Inc.	USA

Aalberts operates some 70 business locations and 80 service locations with activities in over 50 countries.
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climate technology

Comap S.A.	FRA
Flamco Holding B.V.	NLD
Meibes System-Technik GmbH	DEU
Nexus Valve, Inc.	USA
Simplex Armaturen & Systeme GmbH	DEU

industrial technology

BROEN A/S	DNK
D.S.I. Getränkearmaturen GmbH	DEU
Integrated Dynamics Engineering GmbH	DEU
Lamers High Tech Systems B.V.	NLD
Mogema B.V.	NLD
Pneu/tec B.V.	NLD
Taprite-Fassco Manufacturing, Inc.	USA
VAF Instruments B.V.	NLD
Ventrex Automotive GmbH	AUT
Vin Service S.r.l.	ITA
VTI Ventil Technik GmbH	DEU

key figures 2014-2018

	2018	2017	2016	2015	2014
results (in EUR million)					
revenue	2,759	2,694	2,522	2,475	2,201
added value	1,726	1,678	1,569	1,521	1,332
operating profit (EBITDA)	462	422	392	367	332
operating profit (EBITA)	366	336	298	272	247
net profit before amortisation	275	238	212	190	168
depreciation	96	87	94	95	85
cash flow from operations	427	427	383	330	307
free cash flow (before interest and tax)	312	310	273	243	222
balance sheet (in EUR million)					
intangible assets	1,235	1,127	1,128	1,050	900
property, plant and equipment	818	775	762	736	726
capital expenditures	134	119	106	96	85
net working capital	464	455	480	461	427
total equity	1,676	1,513	1,391	1,285	1,163
net debt	586	569	713	718	690
capital employed	2,262	2,081	2,104	2,002	1,854
total assets	3,148	2,910	2,859	2,741	2,552
number of employees at end of period (x 1)	16,452	16,003	15,338	14,709	14,492

	2018	2017	2016	2015	2014
ratios					
total equity as a % of total assets	53.2	52.0	48.7	46.9	45.6
leverage ratio	1.3	1.3	1.7	1.8	1.9
EBITA as a % of revenue	13.3	12.5	11.8	11.0	11.2
free cash flow conversion ratio	67.6	73.4	69.8	66.1	66.9
return on capital employed (ROCE)	16.6	16.2	14.7	14.3	14.1
added value as a % of revenue	62.6	62.3	62.2	61.5	60.5
EBITDA as a % of revenue	16.7	15.7	15.5	14.8	15.1
net profit before amortisation as % of revenue	10.0	8.8	8.4	7.7	7.6
effective tax rate as a % of profit before tax	21.4	24.6	25.2	25.8	27.4
net debt / total equity	0.3	0.4	0.5	0.6	0.6
interest cover ratio	27.2	25.9	24.6	21.8	22.6
number of ordinary shares issued (in millions)	110.6	110.6	110.6	110.6	110.6
figures per share (in EUR)					
cash flow before amortisation	3.35	2.94	2.77	2.58	2.29
net profit before amortisation	2.49	2.15	1.92	1.72	1.52
dividend	0.75	0.65	0.58	0.52	0.46
share price at year-end	29.05	42.40	30.82	31.79	24.54

aalberts
mission critical technologies