ANNUAL REPORT 2016

SHARING OUR **ADDED VALUE**

NEWAYS®

Neways at a glance

Neways Electronics International NV (Neways) is an international one-stop provider for product life cycle management of advanced and integrated electronic applications.
We serve professional and industrial growth markets and support global players in the manufacturing industry and their first-tier suppliers in aiming for the best total cost of ownership.
Neways had around 2,612 employees and net revenue of € 393.2 million in 2016.
Our operations are spread across five countries in Western Europe (the Netherlands and Germany), Eastern Europe (the Czech Republic and Slovakia) and China. The head office is located at Science Park Eindhoven. Neways is listed on Euronext Amsterdam.

Contents

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

CEO's foreword

In 2016 we saw the first results of the Group-wide improvement programme we had initiated in the second half of 2015. The programme has three pillars. *Customer intimacy* anchors our business and enables us, in combination with *technology leadership* and *operational excellence*, to better serve our customers. We identified action plans for each pillar, which we implemented in 2016.
The prime objectives are better utilisation of the potential of Neways, raising customer value, increasing profitability and turning Neways into the first-choice technology and product life cycle partner for its customers.

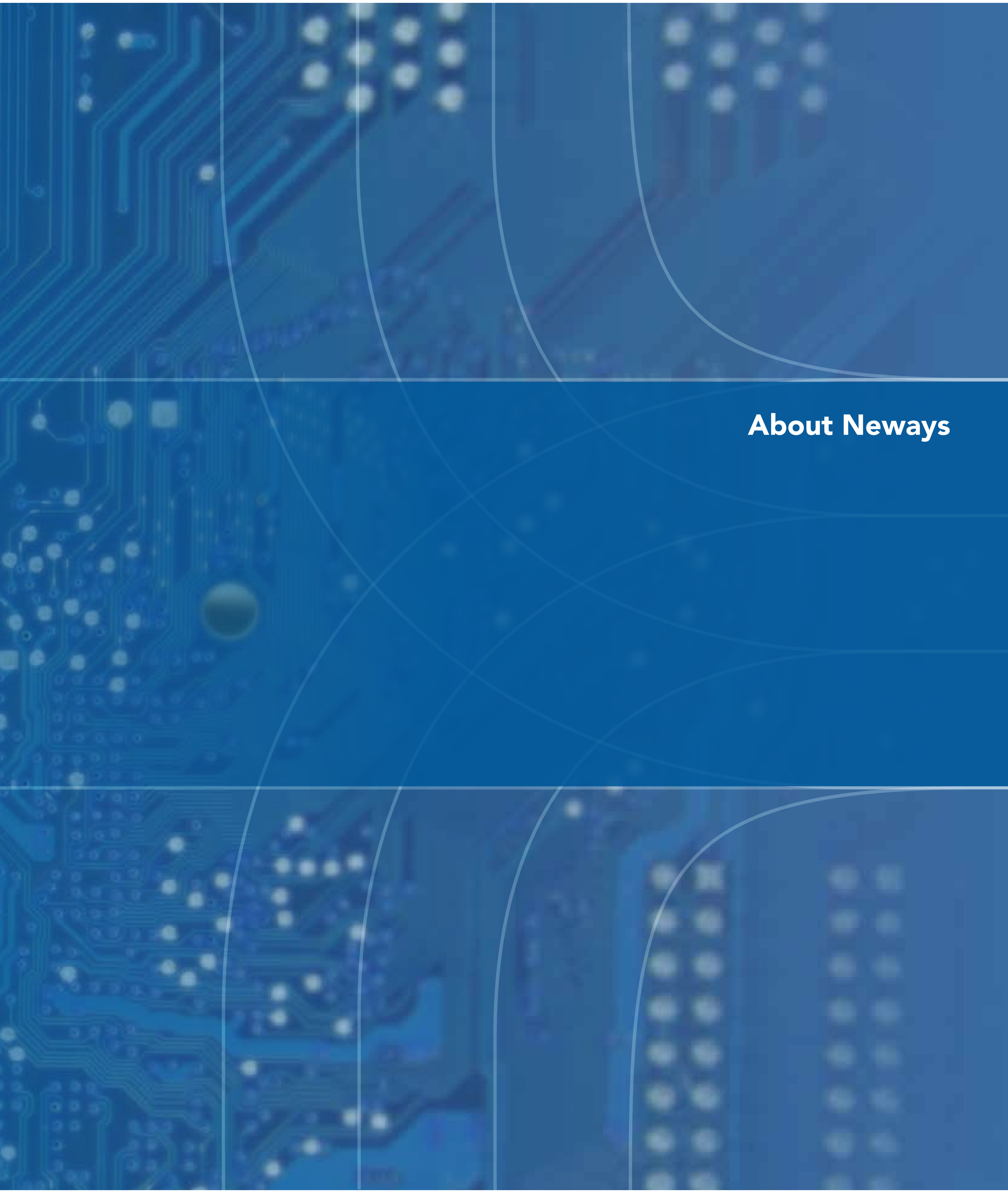
This programme has ushered in a new phase of development on our way to better anchoring our proposition as a technology and product life cycle partner. Our objective is to achieve the best *total cost of ownership*. We want to move up the value chain and improve agility. To do so, we need to reduce complexity in the Neways Group. We have already achieved excellent progress on strengthening the integral governance and simplifying and streamlining our processes. This comprehensive package of initiatives enables us to systematically improve our profitability in the years ahead. The cyclical nature of our industry means that there will inevitably be short-term fluctuations, but the uptrend will manifest itself more clearly in the years ahead.

The improvement programme introduces a new dynamic and a different way of working. The central focus of the programme is on solution-oriented thinking, leadership, accountability and pro-activity, both internal and external. While these DNA changes will not always be reflected immediately in our financial bottom line, they are essential if we are to attain our ambitions and add more value going forward - for customers and shareholders alike.

I realise that change is not always easy, especially when it becomes close and personal, impacting your own way of working. That is why I am all the more proud of those who are stepping up to lead the way and ensure with their individual commitment, enthusiasm and motivation that Neways develops a transparent, customer-focused style of operating. We are well on our way to *One Neways*.

2016 was a year of significant change and I am told by our people that a new wind is filling our sails. We are better able to see things from the customer's perspective and work with a tighter focus on results. I look back with satisfaction at the first full year in which we worked together as a new Board of Directors to implement our ambitions and plans. We will continue to drive forward on this path in 2017, rolling out our Group-wide improvement programme on the way to creating more value for our stakeholders.

Huub van der Vrande
CEO



About Neways

Mission and profile

Mission
To offer customised solutions in close collaboration with customers for the full life cycle of PCBAs, cables, microelectronics and box-build applications, always aiming for optimum cost of ownership.

Profile
The operations of Neways cover the full life cycle of professional electronics in the business to business segment, from the initial idea to development and production, repairs and service.
As an international one-stop-provider in the Electronic Manufacturing Services (EMS) market, we support global players in the manufacturing industry, Original Equipment Manufacturers (OEMs) and their first-tier suppliers with tailored solutions for product life cycle management of advanced electronic applications. We do this for electronic components, assemblies and for fully integrated (box-build) operating systems.

Neways focuses on five industrial and professional market sectors. The balanced spread across these selected market sectors reduces sensitivity to cyclical fluctuations within certain parts of the EMS market.

Our applications are used in a wide range of end products for the automotive, semiconductors, industrial, medical and defence market sectors.

Activities
We support customers and provide them with full-service solutions for the entire product life cycle of electronic components and systems. We have all the necessary skills and expertise to advise customers on technology management issues, ranging from the inception of the product design phase up to and including the end-of-life phase of a product; and we do so on the basis of the best total cost of ownership principle.

Presence
Neways has operations in Western Europe (the Netherlands and Germany), Eastern Europe (the Czech Republic and Slovakia) and Asia (China). Our operating companies are generally located in strategic locations of leading industrial and technological regions, close to customers. The head office is located at Science Park Eindhoven. Neways is part of Brainport, a top technology cluster in and around Eindhoven, which is also home to leading global manufacturing businesses such as ASML, NXP, VDL, FEI and Philips. Businesses in Brainport work closely with local authorities, technical universities and universities of applied sciences to maintain and extend the internationally leading competitive position of the region in the field of high-tech and innovation.

Overview of activities per operating company

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

Key figures and performance indicators

Revenue

2016

393.2

compared with 2015

+**5.1**%

Adjusted operating profit*

2016

12.7

compared with 2015

+**26.4**%

Adjusted net profit*

2016

9.2

compared with 2015

+**47.1**%

Net cash flow**

2016

2.6

compared with 2015

–**8.5**%

Equity

2016

78.9

compared with 2015

+**11.9**%

Interest coverage ratio

2016

6.8

compared with 2015

+**38.8**%

Net debt/ EBITDA ratio

2016

1.5

compared with 2015

–**21.1**%

Equity solvency as % of the balance sheet total

2016

41.9

compared with 2015

+**5.3**%

* Net of exceptional income and expense (see page 28).

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

Adjusted net profit per share*

2016

0.80

compared with 2015

+**45.5**%

Total number of employees on a full-time basis

2016

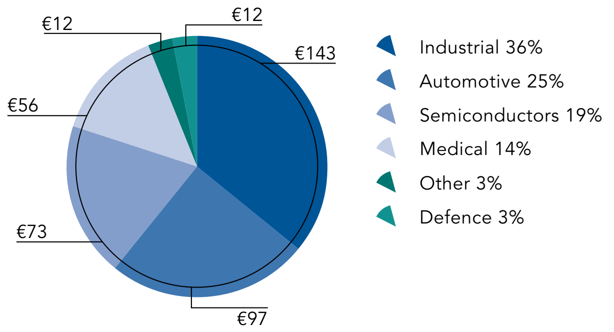
2,565

compared with 2015

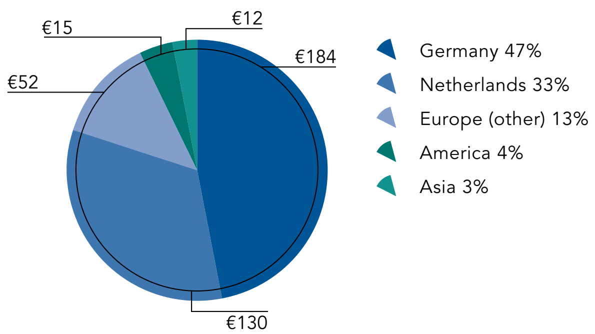
-**1.1**%

Distribution of revenue by market sector

in millions of euros

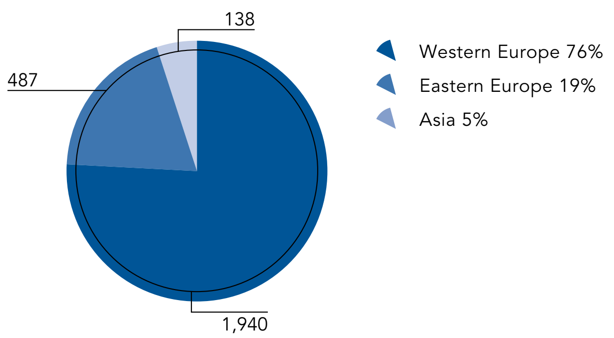


Geographical distribution of revenue



Geographical spread of employees

on a full-time basis



Susan Weidenhagen
is Manager Logistics at BuS Elektronik in Riesa and responsible for efficient logistics processes and optimum utilisation of available space.

"The implementation of a uniform way of working is crucial in designing more efficient logistics processes and agreements with suppliers."

"I work closely with the strategic purchase manager, the category manager and the account manager within BuS and other operating companies on a daily basis to develop a preferred supplier strategy. This means that we jointly aim for a limited number of preferred suppliers per purchasing category. This produces both benefits of scale and a more efficient design of our logistical chain. The goal is ultimately to bundle 80% of our orders at a select number of preferred suppliers per purchasing category. For instance, we have more than halved the number of suppliers in a certain purchasing category, with three 'focus suppliers' now accounting for 80% of our purchases.

The holding company plays a central coordinating role in streamlining the various logistics chains. One of the goals is to go from dozens of different logistical methods back to five. The operational excellence of BuS as an operating company and the excellent services of Neways as a Group depend to a significant extent on a more efficient supply chain."

Markets and trends

Technological progress and the broader acceptance of technological innovations are key drivers of the growth of the global manufacturing industry. The Internet of Things is driving the emergence of smart devices. More functionality can be added to existing technical devices. More devices can communicate autonomously with each other and exchange data. The Internet of Things moreover unlocks a world of completely new intelligent devices for numerous specialised applications, particularly in the professional and industrial markets in which Neways is primarily active. Progressively more electronics are required to enable these new and existing devices to do what they are designed to do. The Internet of Things therefore offers the manufacturing industry more opportunities, challenges and choices from which Neways can benefit as a technology and life cycle partner.

Challenges for the manufacturing industry

Customers of Neways are faced with a number of significant market challenges. Growing competition due to globalisation and innovation is generating price pressure. Continual miniaturisation means that components in technical equipment need to become ever smaller and more compact, while retaining their functionality and possibly their shape as well. Product life cycles are becoming progressively shorter due to the rate of innovation. At the same time, supply chain complexity is increasing due to the greater functionality of devices. Additionally, more volatile macro-economic conditions entail increasing fluctuations in demand from end users. Liability is likewise growing owing to regulatory requirements concerning sustainability, safety and other social aspects, which necessitates greater compliance efforts.

Closer collaboration is therefore required throughout the chain. OEMs increasingly need to collaborate with solid and reliable partners, who can offer added value and can help to navigate through the increasingly complex market.

Market challenges

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

Greater need for agility and focus on core OEMs

OEMs

More outsourcing to trusted partners who add value

Decisive qualities

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

Expertise/competencies of Neways

Shift in customer requirements

Outsourcing by large players in the manufacturing industry has increased and it all comes down to offering more added value, high quality and reliable delivery on the basis of first time right. The EMS industry is adapting, but not every business will be able to do so by itself. Sufficient scale is a key criterion. Scale provides leverage and makes it possible to grow in step with customers whose size often outstrips that of their suppliers many times over. EMS businesses must be able to share more risks and follow customers. They must ensure compliance with increasing regulatory requirements, product and process standards and adequate product traceability. Demand from customers for box-build solutions and system integration is growing and EMS businesses must have or develop the know-how and competencies to be able to accommodate this. The same applies to the issue of product life cycle management, in connection with which a strong engineering arm plays a key role. Increasingly, customers are looking at the best total cost of ownership instead of only the costs when arranging the production of a specific application. Implicitly, this means that EMS businesses need to be able to better support their customers in optimally managing and flexibly designing supply chain, planning and production processes.

"Growing demand for innovation from OEMs in collaboration with EMSs to increase product functionality and lower total cost of ownership."

EMS market composition and competitive playing field[1]

The EMS market plays a key role in the production of electronic applications. It is a global market that accounts for more than 40% of the total assembly industry. In recent years we have seen a steady growth of outsourcing by the large players in the manufacturing industry, and EMS is still by far the most widely used model that is available to OEMs.

Worldwide, the size of the EMS market is estimated at more than € 200 billion on an annual basis, but estimates and opinions on what does and does not belong to the market vary sharply. The EMS market is highly fragmented, with a number of very large players, who are primarily active in the computer and consumer electronics sectors, and very many other, smaller players. Consolidation is expected to occur at the lower end of the market especially. Scale is becoming increasingly important and smaller players are unable to meet the shift in demand from OEMs and the requirements that are set.

Neways is one of the top 40 EMS businesses worldwide and ranks among the top 10 in Europe, which means Neways is a medium-sized international player. The EMS market is dominated by Asian businesses and is strongly consolidated: the global top 10 account for 58% of the market. The most dominant players focus on low mix/high volume products in the consumer, computer and communication sectors. Although dominant Asian players benefit from outsourcing and cheap labour, the difference in wage costs between developed and emerging economies is narrowing. Looking at the global EMS market, production, especially for high mix/low volume, is increasingly taking place in North America or Western Europe again.

The European EMS market in which Neways is primarily active is substantially smaller, with an estimated size of more than € 25 billion on an annual basis, but still large in absolute terms. Germany is by far the largest EMS market. The European market is also highly fragmented. More than 1,000 EMS players are active in Europe, including the global players and numerous smaller players. Around 80% of revenue is achieved by fewer than 100 businesses. Neways is among the top 10 of European EMS businesses. Neways focuses on a select number of market sectors and product-market combinations (PMCs).

[1] Various sources: The Worldwide Electronics Manufacturing Services Market 2016 Edition, Reed Electronics Research, Circuit Assembly Online Magazine.

EMS market sectors

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

Neways focus growth sectors

- Automotive
- Semiconductors
- Medical
- Industrial
- Defence

Specialist niche player

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

Expected EMS market growth[1]

The global EMS market is expected to experience a 6.2% Compound Annual Growth Rate (CAGR) in the period 2016-2020. Comparability with Neways is limited, as the CAGR growth outlook is largely determined by the dominant market sectors such as Communications and Computer, in which Neways has limited or no activities.

[1] Source: Neways market data / The Worldwide Electronics Manufacturing Services Market 2016 Edition

e-Mobility

Driving electric cars is taking off. Using less fossil fuels is necessary to combat climate change and to create a cleaner living environment.

While boosting demand for more electric cars, this also means that manufacturers are faced with increasing product requirements in terms of safety, convenience and efficiency.

Neways advises electric car manufacturers to focus even in the development phase on developing parts that can be designed swiftly, at low prices and to a wide range of specifications. After completion of an electric car, Neways continues to be involved as partner in the full life cycle of the various automotive components. Neways also shares information on the expected developments in the market for electric cars and the expected requirements of consumers and governments in the future.

The products that Neways develops and manufactures for electric cars include charging cables and PCBs. Neways ensures that the charging cables meet safety standards, while also being increasingly energy-efficient. The PCBs that Neways designs and develops are used in control electronics and electric motor drivers.

SWOT analysis

Strengths

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

Weaknesses

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

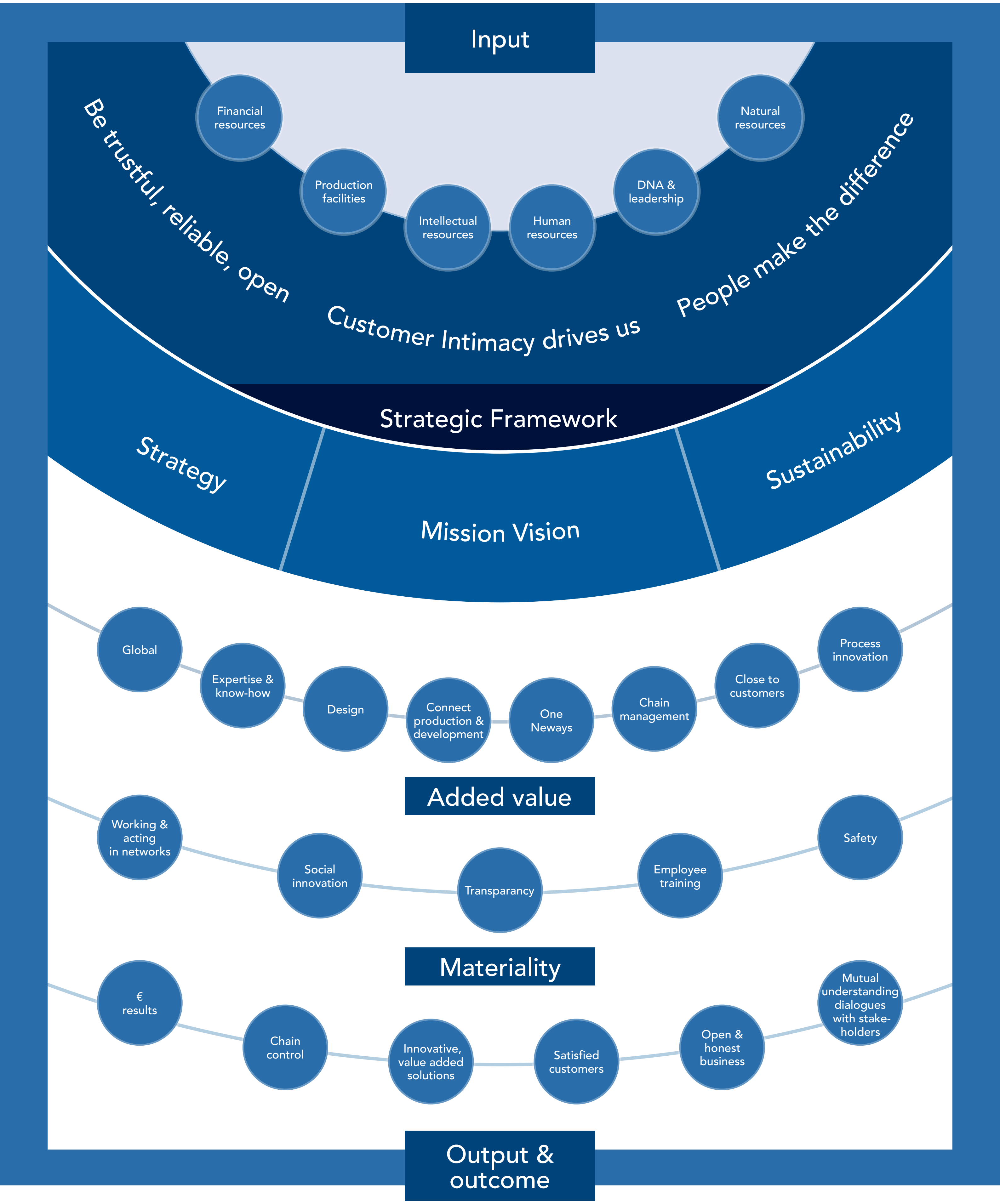
Opportunities

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

Threats

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

Value creation model



Ambition and strategy

Neways is progressing in a new phase of development in which we are moving up the value chain. Our ambition is to become the technology and life cycle partner for customers. Our strategy is aimed at achieving this ambition and thereby creating more value for customers, employees and shareholders. The associated Group-wide improvement programme provides a structured, systematic approach designed to improve our capacity to leverage the power and potential of Neways.

Our strategy is based on three pillars: customer intimacy, technology leadership and operational excellence. In order to strengthen these pillars, we have designated three tactical spearheads that will jointly help us to achieve our ambition.

Selectively serving market sectors and product-market combinations
As a medium-sized player in the EMS market, Neways selectively targets a limited number of attractive sectors in which we can offer clear added value to customers with our expertise in the field of technology management. Deliberately focusing on in-depth knowledge in specific sectors better enables us to offer knowledge and experience that customers cannot get anywhere else. Promising (new) product-market combinations (PMCs) include, for instance, intelligent solutions that are often associated with the trend towards miniaturisation and to aid users to measure more accurately and to perform more tailor-made, low-dust and precision work.

Building long-term partnerships
The complexity of demand from large customers in the manufacturing industry is increasing. With our operational excellence and technology leadership, Neways is a reliable partner that helps customers to efficiently and effectively address complex issues. As a reliable partner, we are close to the customer. Our customer intimacy ideally positions us to enter into long-term partnerships, spearheading the consolidation and expansion of technology and life cycle partnerships. Two things are important in this respect: (1) strengthening our own internal processes and competencies; and (2) actively contributing to the thought processes of more customers at an early stage regarding the development of new products and process design. The ability to co-opt the customer's perspective is key to better serving customers and anchoring our business. We improve our chances of receiving production orders and follow-up orders and obtain a better understanding of the order pipeline. Long-term partnerships accordingly contribute to a more stable foundation underpinning our revenue streams.

Maximisation of customer value
As a life cycle partner, a strong relationship of trust with customers is essential. This calls for a strong involvement of Neways in the full life cycle of the customer's product and knowledge of the requirements in the customer's market. In order to maximise customer value, Neways aims for the best local cost of ownership. In each and every phase, Neways will apply its technology and production knowledge to ensure an optimal product for the customer, in terms of both design and manufacturability. Maximising customer value turns primarily on strengthening our capability to deliver better products at lower costs.

Focus areas

The resources have been translated into more specific focus areas that shape the strategy of Neways as a whole.

Strengthen competitive advantage
- Further development and expansion of technology and life cycle management competencies
- Be selective regarding sectors and choice of PMCs
- Assure market and technological knowledge advantage in selected focus areas
- Strengthen customer- and performance-focused working

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

Increase operating leverage
- Simplify and optimise the supply chain
- Continual stringent cost containment
- Further flexibilisation of organisation and labour

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

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

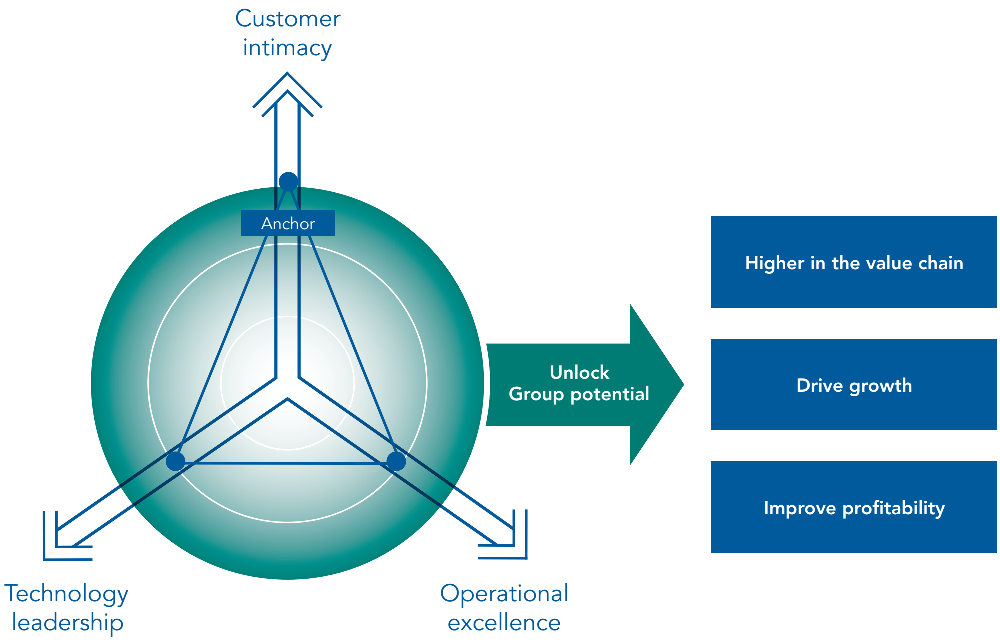
Build local-for-local business in China
- Capitalise on growth of the Chinese economy and local demand for electronics applications
- Expansion on the basis of existing relationships of trust and partnerships in Western Europe and by means of local acquisitions
- More directly serving OEM branches in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

Realisation of add-on acquisitions
- Add-on acquisitions should contribute to strengthening the positioning of Neways as one-stop provider and be complementary
- Potential acquisition candidates should have a reasonable size, be established in industrialised or technology-driven regions, have specific technological or engineering expertise, and/or offer access to new large customers

Group-wide improvement programme

Based on the strategy Neways has implemented a Group-wide improvement programme named '*Up to the next level*'. This is a medium-term programme that consists of a set of specific initiatives and steps that are closely interrelated and aimed at creating One Neways, in order to better harness the power and potential of the Group. To achieve this, we will have to strengthen our base and achieve clearer communication and a more performance-focused way of working, both internally and in respect of customers. We are doing so on the basis of an overarching and continual Neways DNA change process that we initiated in the second half of 2015.

The Group-wide improvement programme can also be subdivided into three main pillars, with customer intimacy anchoring our business. In combination with technology leadership and operational excellence this enables us to optimally serve our entire playing field of customers.



Customer intimacy

Customers expect their partners to deliver more added value. Neways needs to have in-depth knowledge to genuinely add value and contribute actively to the thought processes of customers at an early stage. It is essential for customer intimacy that we thoroughly know and understand the markets and sectors in which our customers operate. Knowledge of market trends, sector-specific requirements and customers' objectives help Neways to offer customers a better proposition and to pro-actively support them. Neways is driving forward employees' awareness that they need to understand every aspect of our customers' requirements and pro-actively address these during the entire product life cycle. The added value can derive, for instance, from innovative capacity, components management or optimal logistical design. This allows us to offer customer-specific solutions and more strongly anchor our role as life cycle partner. The DNA change process and the associated training and education for sales and account managers play an important enabling part in this regard.

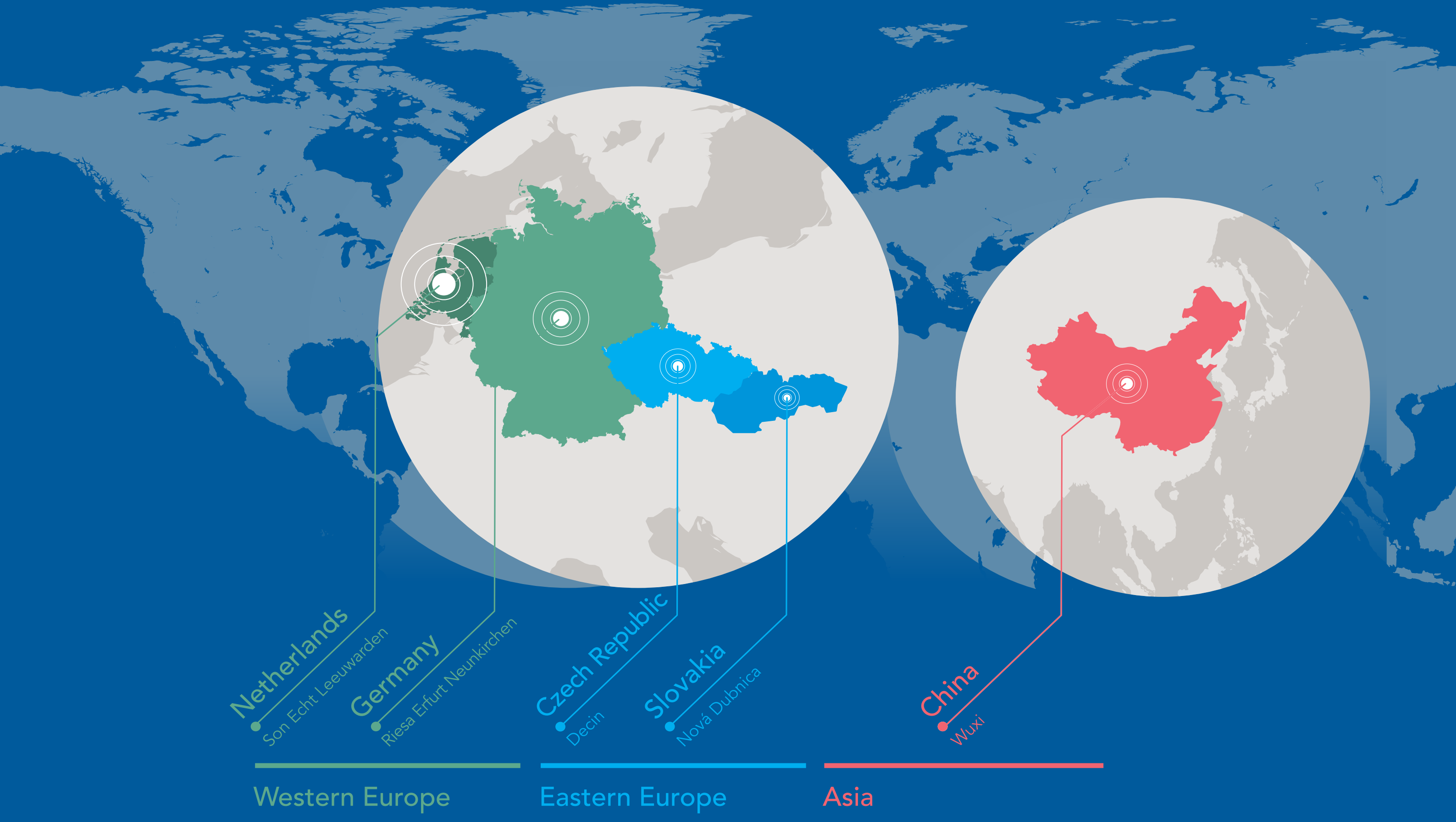
Technology leadership

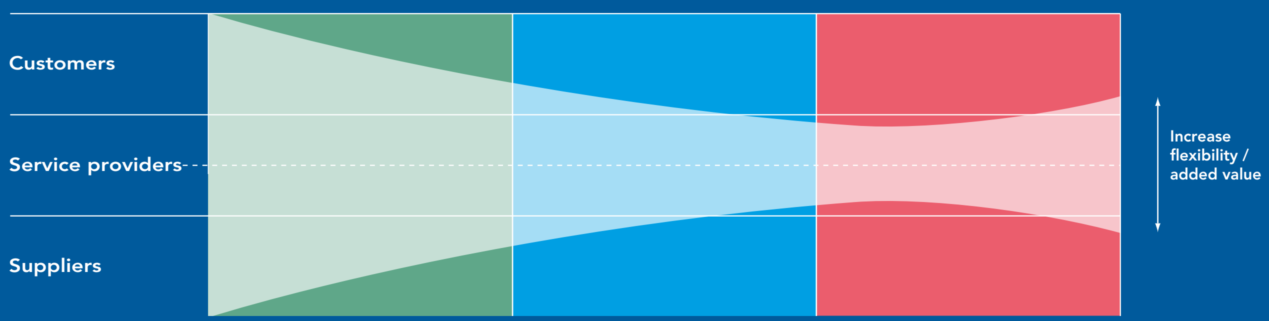
With a view to strengthening the position in the field of life cycle management, the engineering and design organisation (Neways Technologies) will assume a more central role within the Group. Accordingly, engineers will be deployed on a broader basis as sparring partners for customers' systems architects and designers. The engineering and design organisation will be placed closer to the account managers of the production locations to better assure early involvement in new product development. That allows more support to be provided in the design (Design for eXcellence) and the development of (new) electronic solutions, reducing costs and implementing product improvements. This is supported by the choices we make for attractive product-market combinations within the sectors that we serve, leveraging our knowledge advantage in technology management to offer clear added value to customers and contribute to their innovation potential.

Operational excellence

A more integral coordination of operational processes contributes to a more efficient operating model and better utilisation of potential synergies and economies of scale. This applies to the Group as a whole, but also to the operating companies themselves. To achieve this, we are adapting our organisation where necessary and streamlining our way of working, for instance in the field of logistics and by actively reducing the number of suppliers. Reducing the number of suppliers contributes significantly to improving the agreements that can be made with parties in terms of flexibility, technological support and cost levels. We will operate on a more closely integrated basis as a Group and simplify and standardise our QLTC (Quality, Logistics, Technology, Costs) processes. Due to the characteristically high complexity of the supply chain in EMS and the growing demand for complex box-build systems for which more material components need to be purchased, redesigning the supply chain to be more efficient is one of the key challenges we have identified. At the same time, this is also where a substantial part of the operational improvement potential is to be found.

International footprint and business model





Business model

Neways has operations around the world and is present via operating companies in Western Europe, Eastern Europe and Asia.

WESTERN EUROPE

In Western Europe, the operating companies promote the Neways strategy built on being a one-stop-provider. Neways combines technological expertise with high-quality batch production of complex electronic components and ready-made systems. Most of the operating companies are based close to customers in industrial and technological clusters. This proximity facilitates close cooperation with customers.

Neways has activities in the principal industrial and technological regions of the Netherlands and Germany. The activities in these regions are knowledge-intensive. Neways has a strong position in the German EMS market and in particular in the automotive sector. Neways ranks among the top 10 of European EMS businesses.

Extensive cooperation between the operating companies is essential. This cooperation provides a platform for synergies and new initiatives for product, process and overall quality improvements. In the longer term, optimised cooperation leads to substantial efficiency benefits.

In 2016 Neways had nine operating companies in the Western Europe region. The total number of employees averaged 1,940.

EASTERN EUROPE

In Slovakia and the Czech Republic, three operating companies are engaged in batch production of electronic components and systems. The continued development of those components and systems makes them suitable for production in countries where Neways has achieved significant cost advantages. A large part of this batch production has been contracted by the Neways operating companies in Western Europe.

Neways made substantial investments in the past years to modernise the Eastern European production facilities. Neways can therefore comply with current quality standards and has laid a foundation for future expansion of activities and knowledge areas in Eastern Europe.

In 2016, the number of Neways employees in Eastern Europe averaged 487.

ASIA

Neways is active in China with one operating company engaged in assembling PCBs and building devices and hybrids, mainly for customers and Neways branches in the Netherlands and Germany. In China, Neways mainly produces components and systems whose development is complete, allowing for cost-efficient production. The production facilities are state-of-the-art and equipped with the latest SMD production lines.

Besides providing a cost-effective production facility, the Chinese operating company also forms a solid basis for future expansion. Neways is already engaged in development activities on a small scale in Asia, partly with a view to local-for-local services. The Chinese activities play a central role in expanding component purchasing in the local Chinese market. The branch in China provides operational support to Neways operating companies serving customers from both Europe and Asia.

In 2016, the total number of employees in Asia averaged 138.

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

Report of the Board of Directors

Highlights 2016

BuS Family Day

The annual Family Day of the Neways branch in Riesa, Germany, was doubly special this year as the branch celebrated its 25th anniversary. The branch has also been part of Neways for more than two years now. The day's motto was 'The Netherlands meets Germany'.

Open Day for Shareholders

The annual Open Day for Shareholders was held in September. Shareholders were updated on new initiatives and developments. They were also given a tour at the Neways Advanced Applications operating company, where they received more information on the improvement programme *Up to the next level*.

Electronica München

Neways was represented with a stand at the Electronica 2016 trade fair in Munich. Current and future projects were discussed with various existing and potential customers, and the latest innovations were demonstrated and explained to the public.

Supplier Day

During Supplier Day 2016, our strategic suppliers were informed of the important role they have in the overall performance of Neways. The help of suppliers is extremely important in increasing flexibility and supply reliability and reducing costs. We have received very good ideas since then and have initiated talks with three suppliers to put these ideas into practice.

Golfing day

The annual golfing day at Best Golf continued the successful tradition of giving employees of Neways and customers an opportunity not just to enjoy sports and leisure but also to meet in an informal setting.

Best improvement team announced

Team NSK was named the best improvement team at Neways for the second time. They owed their victory to the quality improvement of no less than 30% and the effective application of skills acquired at Lean Management workshops.

Customer Day in Erfurt

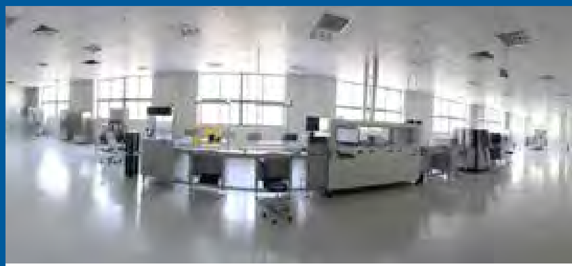
The Neways Customer Day in Erfurt, Germany, was held in the historic Kaisersaal. With five speeches on this topic, the day's guiding theme was the technology of the future. The keynote speech held by Olympic medallist Hartwig Gauder was the highpoint of an inspiring day.

NT Sensor

Neways has developed an advanced thermal sensor with numerous industrial applications. It was developed in close collaboration with customers and enables Neways to further extend its leading position in this knowledge area.

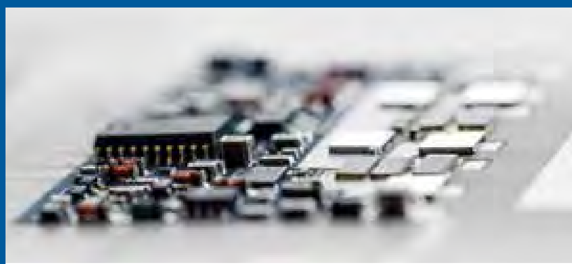
Suzy Q

Suzy Q, a method for automating production processes, is being increasingly applied within the various branches of Neways. This increases not just our efficiency in production, but also our flexibility and the quality we deliver.



Wuxi certified for Automotive

At Neways in China we have worked hard to improve the traceability of components in the supply chain, as well as the work culture. This has led, among other things, to a large order to supply a range of electronics to manufacturers of electric cars.



Introduction of NME Roadmap

We have made significant advances in making small electronics even more powerful. By defining the Roadmap, we know what needs to be done to advance the development and improve power electronics.

Launch of Next Generation

The Next Generation IT system went live this year at Neways Advanced Applications. The experience acquired in its implementation and use is being applied to optimise the roll-out of the system at other operating companies.

Business, operational and financial review

2016 was the first full year of our Group-wide improvement programme. This multi-year programme implements our strategic ambitions on a structured and systematic basis. All programme initiatives are aimed at better utilising the potential of Neways as a Group, increasing its customer and performance focus and pushing profitability to a higher level. The first effects of the programme were already reflected in the financial bottom line in the past year. On the back of net revenue growth of 5.1% to €393.2 million, adjusted operating profit rose 25.7% to €12.7 million.

Roll-out of Group-wide improvement programme

Strengthening customer intimacy was prioritised in 2016. To a significant extent, this is accomplished by our DNA change process. More than 85 internal workshops have now been held in this connection in our organisation in Western Europe. Building on this, the roll-out of the *lean leadership training* programme for senior, commercial and account managers continued apace. This training programme specifically spotlights a customer-centred approach.

We are seeing a growing awareness throughout the organisation that we can deliver better solutions for our customers by improved cooperation and knowledge exchange. We provide more added value by marrying specialist knowledge of market sectors with our technology management expertise. Applying this combined knowledge enables us to provide pro-active input as technology partner for the customer from the earliest phase of new product introductions (NPIs) and to advise them on the best solution. To facilitate this, the management of marketing & sales initiatives was tightened and greater focus was introduced in the market sectors in which Neways operates. We have implemented this by motivating employees to study these topics further and by sharing this knowledge internally, but also by organising technology workshops for customers, which helps to promote our external identity as a Group and gives customers a better idea of the added value and solutions that Neways is able to offer.

"We provide more added value by marrying specialist knowledge of market sectors with our technology management expertise."

This last parameter is also largely what technology leadership is about. In 2016 we gave our engineering organisation, which now comprises more than 400 developers and engineers, a stronger linchpin function, positioning it closer to the operating companies to add more knowledge and expertise at an early stage in customers' NPI development processes. Standards for product assembly and testing have been raised to a higher level throughout the Group, boosting our ability to meet changing customer requirements (zero defects, first time right). In our expertise area of technology management, we are engaged in turning from thinking in terms of Design for Manufacturing (DfM) and Design for Testability (DfT) to Design for eXcellence (DfX). DfX better positions us to deliver our life cycle partner and best total cost of ownership proposition.

We also started to identify and select expertise areas in 2016 within the market sectors in which we operate. Pursuing more deliberate choices allows us to serve attractive niches within our playing field that provide higher added value for customers. We target these within the selected market sectors and translate them into attractive product market combinations.

The central coordination in the field of operational excellence was strengthened in the past year. The performance of the operating companies and collaboration between them are managed more tightly at the Group level. That also requires closer support of the operating companies to ensure changes and process improvements are implemented robustly. Where necessary, management capacity at an operating company is temporarily bolstered. We have introduced a matrix structure at a Group level and several new corporate functions have been created to streamline and simplify purchasing and ICT processes throughout the Group. In addition, a start has been made on stronger integrated coordination of key functions such as logistics, engineering, quality and sustainability. The revised top structure is partly easing the workload for the operating companies, creating greater scope for focusing on customer relationships and on their role as sparring partner for the design and development of new product introductions. The creation of the 'Advanced thermal sensor' (see page 61) powerfully illustrates this.

Simplification and better alignment of QLTC processes have been given shape on multiple fronts in the past year. As the supply chain is complex and hundreds of components are required to make a box-build system, standardisation of the purchasing processes is divided into steps. A selection of suppliers is defined for each product group on the basis of criteria determined in advance (price, quality, supply reliability, sustainability). The number of suppliers is reduced in line with this, and arrangements are put in place to better accommodate the interdependencies and risks in the chain. This process was started for the category passive components and PCBs in 2016. In 2017, we will start on the categories semiconductor components and metals. In the coming years, the other product groups will go through the same procedure, resulting in a better utilisation of economies of scale, a more manageable supply chain and phased reduction of working capital tied up to a permanently lower level.

In 2016, the first steps were taken to set up a central flexible work bank. This will make it easier to deploy production staff within the Group when necessary. The introduction of the uniform article coding also contributes to this, as it makes it easier for operating companies to outsource production to each other. Article coding also offers other benefits. It promotes the traceability of products and serves as basic input for the new Group ERP system that provides better alignment of all operational processes. In the past year, the first operating company migrated to the new ERP system. During this migration potential improvements were identified which will further reduce the complexity of the processes. These improvements will be implemented before the next operating companies migrate to the new system.

A number of organisational changes were also carried out in 2016. Micro-electronics production activities in China were automated and largely transferred to the branch in the Netherlands. Part of the activities was sold to a Chinese party, the remaining activities were moved to the other Neways branch in Wuxi, where additional investments were made as well in preparation for automotive activities. Also, the Dutch operating company that engages in the development and production of cables and cable systems was reorganised. A total of around 80 jobs were eliminated as a result of these changes. The restructuring has contributed to a more efficient operating model and a reduction of the operational cost base.

Financial results

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

€ million unless stated otherwise	2016	2015
Operating profit	11.8	5.9
Exceptional income and expense:		
Provision for restructuring	0.0	2.8
Amortisation of BuS Purchase Price Allocation	0.9	1.4
Adjusted operating profit	**12.7**	**10.1**
Net profit	9.7	3.2
Exceptional income and expenses (after tax)	0.6	3.0
Tax asset relating to net operating losses	–1.1	0.0
Adjusted net profit	**9.2**	**6.2**

€ million unless stated otherwise	2016	2015	Δ
Net revenue	393.2	374.1	5.1%
Order book (as at end of June)	191.3	167.6	14.2%
Order intake (incl. intercompany revenue)	458.8	416.8	10.1%
Book-to-bill (ratio)	1.06	1.03	2.9%

The net revenue rose by 5.1% to €393.2 million in 2016, mainly due to the sectors Automotive, Semiconductors and Defence. Order intake was strong, as reflected in a 14.2% growth of the order book to €191.3 million from €167.6 million at the end of December 2015. The book-to-bill-ratio was 1.06. The growth of the order book and the book-to-bill-ratio was largely attributable to more orders in Automotive, Semiconductors and Defence, and benefited from a strong order intake and increased activity in development projects.

Net revenue – by market sector

€ million unless stated otherwise	2016	2015	Δ
Industrial	143	142	0.7%
Automotive	97	88	10.2%
Semiconductors	73	67	9.0%
Medical	56	57	–1.8%
Defence	12	9	33.3%
Other	12	11	9.1%
Total	**393**	**374**	**5.1%**

The increase in net revenue was mainly due to higher revenue in the Automotive (largely from e-Mobility), Semiconductors and Defence sectors, while Medical edged down slightly.

€ million unless stated otherwise	2016	2015	Δ
Gross margin	153.8	147.5	4.3%
Adjusted operating profit	12.7	10.1	26.4%
Margin	**3.2%**	**2.7%**	

The absolute gross margin was up 4.3% due to the increase in net revenue. Gross margin relative to net revenue decreased from 39.4% in 2015 to 39.1% in 2016. In line with the strategy, demand for more complex box-build systems increased. That entails an increase in the quantity of materials components, depressing the relative gross margin. This was partly offset by initiatives to improve the supply chain that led to a reduced number of suppliers and better purchasing terms.

Operating costs rose by 2.7%, mainly due to increased activity levels. Additional costs associated with changes in the organisation processes and the ongoing implementation of the new ERP system within the Group were compensated by improved operational execution and the first savings generated from the largely completed organisational changes at two operating companies. Adjusted operating profit increased by 26.4% to €12.7 million, representing a margin of 3.2%, an improvement of 50 basis points.

Operating profit including non-recurring items rose by 100% from €5.9 million to €11.8 million.

€ million unless stated otherwise	2016	2015	Δ
Financing costs (net)	2.11	2.06	2.4%
Tax burden	11.7%	23.7%	
Net profit	9.7	3.2	201.1%
Earnings per share (€)	0.85	0.28	200.7%
Dividend per share (€)	0.34	0.11	209.1%

Financing costs rose by 2.4% due to a higher capital tied up during 2016 and non-recurring financing expenses relating to refinancing and currency exchange differences, partly offset by lower interest rates in the period under review. In 2016 an amount of €5.9 million in loans with a higher interest rate was repaid.

The tax burden fell to 11.7% in 2016 from 23.7% in 2015. The tax burden in the financial year 2016 benefited from a revaluation of a tax asset by €1.1 million. Net profit and earnings per share accordingly increased by 201.1% and 200.7% respectively to €9.7 million and €0.85 per share, on the basis of a weighted average number of 11,418,822 shares outstanding in 2016.

The dividend proposal for 2016 is in line with the dividend policy and represents a pay-out ratio of 40% of net profit, to be taken in cash. On that basis, the dividend per share will increase by €0.11 to €0.34 per share.

Financial position

€ million unless stated otherwise	2016	2015	Δ
Cash flow from operating activities	10.6	7.4	43.4%
Capital expenditure	–7.6	-4.5	68.1%

Cash flow from operating activities totalled €10.6 million, an improvement of 43.4% attributable in full to higher operating profit, partly offset by utilisation of provisions (restructuring).

Net working capital increased to €64.4 million at year-end 2016 compared with €59.4 million at year-end 2015. Both inventories and receivables rose due to higher activity levels. Inventories measured in turnover days fell to 79 days from 82 days as at year-end 2015. The number of outstanding receivable days rose to 38 and is supported by a number of large OEM customers using supplier finance programmes and facilitating swift payment. The increase in payables outstanding is directly related to the high level of activities.

"The new Group financing provides scope and flexibility for implementing our strategic ambitions and the improvement programme."

Capital expenditure amounted to €7.6 million (2% of net revenue) and more or less matches the level of depreciation. Investments mainly comprised replacement investments in materials and resources, R&D and the implementation of the new ERP system within the Group. Return on invested capital was 14.7% compared with 11.7% in 2015.

€ million unless stated otherwise	Year-end 2016	Year-end 2015
Net debt/EBITDA ratio	1.5	1.9
Interest coverage ratio	6.8	4.9
Solvency (guaranteed capital as % of the balance sheet total)	44.6%	42.6%

Net debt at year-end 2016 totalled €30 million, a decrease of 4.8% compared with year-end 2015, mainly due to a decrease in bank loans. At the same time, EBITDA for the last 12 months (LTM) rose by 18.3% to €20 million from €16.9 million at year-end 2015. The net debt/EBITDA ratio was 1.5, a clear improvement compared with year-end 2015.

Interest coverage has clearly improved, particularly due to lower interest expenses and improved profitability. Solvency rose to 44.6% as at year-end 2016 compared with 42.6% as at year-end 2015.

In the fourth quarter of 2016, agreement was reached with ING and ABN AMRO on the refinancing of the Group. The new financing facility totalling €57.5 million consists of a long-term loan of €5.0 million and an overdraft facility that has been raised by €17.5 million to €52.5 million. The facility is more closely aligned with the characteristics of the business and offers more favourable terms and lower net interest expenses. The new Group financing provides greater scope and flexibility for implementing the strategic ambitions and the Group-wide improvement programme in the years ahead. The facility expires on 31 October 2018, with an option for extension by a further year. The security provided is almost unchanged.

Neways complied with the newly defined covenants at year-end 2016. LTM EBITDA reached €20 million and thus comfortably satisfied the requirement of at least €10 million. The guaranteed capital totalled €78.9 million.
The adjusted guaranteed capital (guaranteed capital less intangible assets and deferred tax assets) was €66.1 million as at year-end 2016.
That is above the applicable requirement of €50 million. The minimum requirement for 2017 and 2018 is €55 million.

Management agenda and outlook

In 2017 we will continue the roll-out of our Group-wide improvement programme *Up to the next level*. Several actions are on the agenda. Some of those were already initiated in 2015 or 2016 and will be continued in 2017. Other points on the agenda are new.

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

This comprehensive package of initiatives and actions will enable us to better serve our customers, strengthen our position in the value chain and gradually raise profitability to a permanently higher level going forward. Due to the cyclical nature of the EMS industry this may be accompanied by short-term fluctuations in our results. The growing demand for more complex box-build systems is an opportunity as well as a key challenge, especially in terms of supply chain management. Box-build requires more materials components, which increases the complexity of the supply chain. As a consequence, simplifications and improvements implemented in purchasing and logistics may initially not always be reflected immediately in our gross margin, which could lead to fluctuations in our results. A more robust organisation and improved supply chain should ensure a clear uptrend in both revenue growth and financial results, and the adjusted EBITDA margin will be significantly higher than it is at present.

We are well positioned going into 2017. The *Up to the next level* programme is designed to reduce fluctuations in our financial results by means of better business process management and a tighter focus of the organisation on customer values. This is also reflected in the order book, which has grown by 14.1% compared with 2015, while also comprising more long-term orders. The effects of our improvement programme will continue to benefit results in 2017. On the basis of the strategic progress we achieved in 2016 and the current order book, Neways expects higher net revenue and adjusted operating profit in 2017 compared with 2016.

Ina Fethke
is responsible as Manager Engineering and MT member at Neways Industrial Systems (NIS) for a team of around 30 engineers.

"The improvement programme *Up to the next level* has contributed significantly to making our processes more efficient and less ad hoc."

"We apply the 80/20 principle, meaning we organise 80% of our work in a regular manner and the other 20% offers scope for ad-hoc work. A streamlined way of working promotes a greater focus on increasingly complex demand from customers, such as flexible print circuit boards (PCBs) or fitting smaller components on PCBs.

We offer added value for the customer by having our engineers contribute their knowledge and experience as early as in the design phase, and by advising on the test strategy or production method to be adopted. That is what the change from EMS manufacturer to life cycle partner looks like in practice.

In 2017 we will continue to carry out our improvement plans by starting to design the 'factory of the future', applying state-of-the-art technologies to anticipate complex requirements of our customers.

As Manager Engineering, I consider it a challenge to be a driving force for the implementation of the improvement programme. By working on improvement each and every day, you can really add value as a life cycle partner."

Organisation and employees

In a business that operates in a dynamic and demanding industry, employees make the difference. The increased complexity of the EMS market requires, besides specialised knowledge and technological expertise in the field of product life cycle management, mainly behavioural qualities such as customer focus and drive. This applies both internally and with regard to customers. We consider a more uniform application of these behavioural qualities in our organisation to be a critical success factor for improving performance on all three main pillars of our Group-wide improvement programme. The behavioural qualities are based on the core values formulated in 2015 and are embedded as such in the Neways DNA.

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

Structure and composition of workforce

Neways is part of the top technology cluster Brainport in the greater Eindhoven region. The head office is located at Science Park Eindhoven and provides central coordination for all 13 operating companies across five countries. At year-end 2016, Neways had a total of around 2,612 employees (in FTEs), a decrease of 1.1% compared with year-end 2015. Around 75% of the workforce is based in Western Europe (the Netherlands and Germany) and 20% work in Eastern Europe (Czech Republic and Slovakia) and China. The number of developers and engineers within our Group has increased sharply since 2014 by 23% to 413 at year-end 2016. This has contributed to a clear change in the personnel mix over the years and the average level of education and training has also increased substantially.

Neways DNA change process

We launched the Neways DNA change process at the end of 2015 to increase the power and potential of our Group. Good progress was achieved in the past year on elaborating and safeguarding the various elements of the Neways DNA. The defined core and customer values are proving to be good tools for lifting Neways to a higher level in terms of work practices and conduct.

Priority was given to the roll-out of the change process in the Netherlands and Germany. To make sure that all employees could take part, the workshop, consisting of three parts, was held around 85 times in total. Employees were already applying what they had learnt shortly afterwards. Behavioural qualities geared to the core values ‘importance of keeping promises’, ‘teamwork’ and ‘proactive mentality’ were subsequently swiftly adopted and applied on a broader basis within the organisation.

But that is not enough. The main benefit is that everyone in the Dutch and German organisation recognises the importance of the change process and is aware of its substance. This provides a foundation for applying it in day-to-day practice. What matters now is to follow through on this and to more thoroughly safeguard the desired changes in the organisation’s work practices. A key spearhead is the further improvement of leadership. This includes matters such as managers leading by example, fostering dialogue and actively communicating on the positive effects of desirable conduct. To achieve this we launched a special training programme for all managers in 2016, on the basis of *the lean leadership model*.

The roll-out of the change process in Eastern Europe is scheduled for 2017. The challenge is to take account of differences in work culture. Different methods and techniques are applied in each country in order to accommodate these differences. In that sense, the implementation of the process is a matter of customisation, taking account of local (work) cultures, legal systems and the unique position and situation applying to each operating company.

One Neways

The Board of Directors is fully committed to the change process. The change in our way of working is considered to be essential to securing a lasting improvement of the Group’s performance. It contributes to achieving a more integrated business and implementing the concept of One Neways.

The members of the Board of Directors attach great importance to openness, feedback and dialogue. Cooperation between the members of the Board of Directors and the operational directors of the operating companies has become closer and more intensive in the past year. This is having an effect on the entire organisation. Employees are demonstrating greater drive and ambition in their daily work. Collaboration has improved, within teams but also between teams and departments, with greater facilitation and stimulation of openness and providing feedback.

The members of the Board of Directors are also more directly involved in the performance of the operating companies and more consultation is taking place on the choice for certain product market combinations. If necessary, this also makes it easier to increase management capacity at an operating company to improve its processes and performance.

Central management

Within Neways, the head office is acting more clearly as the linchpin that is responsible for central coordination. The head office is more than just a strategic and financial holding company and is increasingly becoming a managerial holding company providing tighter integral management of the operating companies.

"Corporate managers were appointed in 2016 to achieve a more uniform way of working within the Group."

Further steps were taken in 2016 to define that role. This is reflected not only in the closer collaboration between members of the Board of Directors and the operational directors of the operating companies, but also, for example, in the expansion of the number of positions at the head office. In 2016, corporate managers were appointed in areas such as purchasing, ICT, logistics and legal, being spearheads of operational excellence. The corporate managers are primarily responsible for establishing an effective process in their area of expertise, supporting the delivery of operational excellence for our customers and a uniform way of working within the Group. This integral management will be given further shape in 2017 by extending central management to the areas of quality and internal audit.

Flexibilisation of labour

Neways makes use of a flexible pool of production employees in particular, which is used to respond to expected cyclical and short-term fluctuations in demand from customers. In 2016 we continued to advance the flexibilisation of labour with a view to better managing the allocation of employees and production capacity within the Group.

The use of flex workers varies during the year. At year-end 2016, the number of flex workers had increased to 10% of the total number of employees compared with 7% at year-end 2015.

Recruiting and retaining talent

The high-tech manufacturing industry as a whole has been struggling with scarcity for many years, especially in the Netherlands. A number of technical positions at the higher professional education (HBO) and university education (WO) levels in particular are difficult to fill. Neways is not hampered by this to a greater extent than its main competitors and the labour market in the greater Eindhoven region is competitive. Salaries that are in line with market conditions and attractive terms and conditions of employment are a must. By means of the Neways employer branding policy, both tech students and experienced professionals with a technical background are informed about Neways as an attractive medium-sized employer for careers in high-tech. This has enabled Neways to fill technically complex positions, for which there is a limited supply of candidates, within a foreseeable timeframe. Initiative and entrepreneurship are valued at Neways and employees are given room to contribute new ideas. In combination with the organisation's dynamism, people-focus and short decision lines, this is a major reason for many new employees to choose Neways as their employer.

The personal development and growth of employees is important to Neways. Neways offers career and promotion opportunities and a challenging work environment that matches employees' personal preferences and ambitions. There is a focus on limiting hierarchy and giving employees room and responsibility, as well as selective training opportunities.

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

Sick leave management

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

Employee participation

Given the envisaged change in the business culture, employee participation needs to be properly safeguarded. To that end we always aim for an open and transparent dialogue with the relevant employee participation bodies.

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

Regular themes at the CON's meetings include market developments and the latest results. In the past year, particular attention was devoted to the organisational adjustments that were carried out and to the roll-out of the DNA change process, especially regarding the impact on our employees and the organisation of labour.

Employee satisfaction

Neways will carry out an employee satisfaction survey (ESS) in 2017 (in the Netherlands) in order to monitor the effectiveness of our policy on all aspects that affect employees. This survey will serve as a baseline. The Neways DNA and leadership are among the key focus areas in this survey. The ESS will be repeated every two years to monitor and evaluate the impact of all aspects of our policy on the organisation and its employees.

Kees Klaassen
is Business Manager at Neways Advanced Applications. In this capacity he is closely involved in the principal technological developments of Neways.

"As a technology business, Neways advises in various knowledge areas. We have selected a number of spearheads on which we can make the difference for our customers."

"By singling out these areas for investment, we create a knowledge advantage for our customers, allowing us to help them compete in the markets in which they operate.

Our milli-Kelvin project, aimed at highly accurate measurement of temperatures, is an example of such a technology area. These thermal sensors are used, for instance, in applications for the production of semiconductors.

The development of flex-rigids, or foldable PCBs (which we internally also refer to as origami electronics) is another example. Unlike regular PCBs, you can fold these around mechanical components, placing them closer to the electronics. This results in improved functionality of our customer's end product.

Lastly, 2-D positioning is also one of our marquee technologies. With this technology, we can very accurately measure the position and direction of objects. The technology has several industrial applications, including, for instance, crane positioning or process optimisation."

Corporate Social Responsibility

Integrity and accountability are fundamental values for Neways. We continually consider the impact of our operations on social and public stakeholders. In further implementing and specifying the CSR policy at the central holding company level, Neways focuses on labour, health and safety, the environment and ethics.

Centralisation

So far, the activities in the field of sustainability have taken place separately for each operating company. Most of these operating companies measure and work to improve various elements such as energy consumption, waste processing and diversity. The operating companies have achieved systematic improvements. Most of the operating companies have ISO 14001 certification.

Despite the improvements that the operating companies have achieved, Neways is aiming for a more central implementation of the CSR policy. To achieve this, CSR was included in the quality policy as from 2016. Communications between operating companies in the field of sustainability was improved in 2016 as part of the Group-wide improvement programmes.

The first project on the basis of a uniform quality and sustainability policy was started in 2016. Subsequent projects will relate to uniform communications, operations and reporting on the sustainability policy. Neways aims to implement an overarching quality management system in the coming years that satisfies ISO 9001:2015 requirements. This is in addition to the individual certification of operating companies.

Employees

Neways gives paramount importance to its employees. Investing in our employees and supporting them in pursuing their ambitions improves the quality of our services. Neways offers employees excellent training programmes to broaden their knowledge and expertise. In addition, Neways also highly values career and promotion opportunities and flexibility, as well as an appropriate remuneration policy.

Neways attaches great value to the safety and health of all employees. Every operating company has its own coordinator who ensures that safety requirements are complied with.

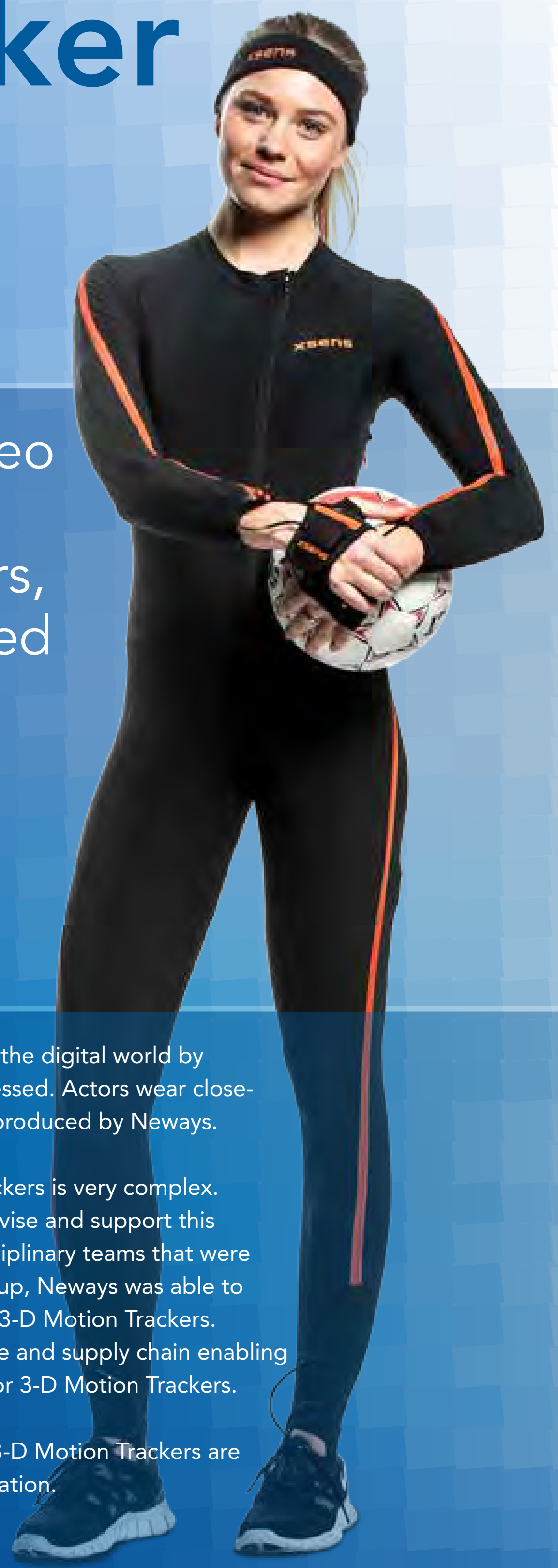
No serious incidents occurred in 2016 in which injuries were suffered. The board of each individual operating company regularly evaluates the safety policy.

The standards of conduct that have been in place for years throughout the Neways organisation have been documented as part of our ethics policy. This policy is part of the internal handbook with which every employee is required to comply. The ethics policy is presented on the website of Neways as a code of conduct and is in compliance with Best Practice provision II.1.3 of the Dutch Corporate Governance Code.

Comprehensive sustainability policy

Neways bases its comprehensive sustainability policy on the Electronic Industry Citizenship Coalition (EICC) code of conduct, an international code that has been developed for the market sectors within which Neways operates. The existing ethics policy has been incorporated into the sustainability policy, which besides ethics also explicitly addresses the topics of labour, health & safety and the environment. Both these documents are available on the Neways website.

3-D Motion Tracker



Animations in films and video games have become ever more realistic in recent years, made possible by specialised businesses, such as Xsens, based in Enschede in the Netherlands.

Xsens provides a seamless transition between the physical and the digital world by converting human motion into digital images that can be processed. Actors wear close-fitting suits that can ‘record’ motion with 3-D Motion Trackers produced by Neways.

The production line and supply chain for these 3-D Motion Trackers is very complex. Neways was already involved at an early stage to be able to advise and support this customer in optimising the design of this chain. Using multidisciplinary teams that were able to tap into all available knowledge within the Neways Group, Neways was able to provide substantial support to Xsens in the development of its 3-D Motion Trackers. Together with the customer, Neways designed a production line and supply chain enabling them to respond dynamically to strong and growing demand for 3-D Motion Trackers.

In addition to being used in the entertainment industry, these 3-D Motion Trackers are increasingly also used in rehabilitation, ergonomics and robotisation.

In the coming years, a transition will take place within Neways from the EICC standard to the GRI 4.0 standard in order to improve measurement of significant sustainability spearheads. Neways has a team of representatives from operating companies that draws up a plan with sustainability spearheads every year. Various elements, including the economy, environment, society and labour, are already included in this. In the coming years, Neways will expand the elements to be reported in each of these categories. In addition, Neways focuses increasingly on working digitally with the help of various Group-wide IT projects. Neways is seeking to reduce the use of office equipment by implementing digital work practices throughout the Group.

Supply chain

Neways manages a global, extremely complex supply chain for its customers. Both social stakeholders and customers are setting increasingly stringent requirements for the sustainability of the entire chain. By increasing transparency in the chain, Neways demonstrates both the degree of sustainability within the supply chain and how it is continually working to improve this.

"By increasing transparency in the chain, Neways demonstrates both the degree of sustainability within the supply chain and how it is continually working to improve this."

Increasingly, complete traceability of every component that Neways purchases or produces is a requirement for a successful customer relationship with OEMs. Customers of Neways may also be located in other jurisdictions with different requirements and standards for sustainability and transparency. Neways aims to satisfy sustainability requirements of customers and partners worldwide.

Social initiatives

Neways pursues various social initiatives every year, and in 2016 several of these were aimed at cooperation with educational institutions. Neways is thereby seeking to link actual practice with the academic world and at the same time to acquire an insight into the most recent scientific developments. The close collaboration to which this gives rise is greatly prised by Neways.

Blue Jay

Neways was involved in the development of Blue Jay in 2016, an innovation in cooperation with Eindhoven University of Technology (TU/e). Blue Jay is the world's first in-house drone. Neways supports the Blue Jay team by teaching courses on the latest production and design methods and producing the PCBAs that are necessary for the challenge.

World Solar Challenge

As a proud, permanent partner, Neways will again be supporting the Eindhoven Solar Team in the season that lies ahead. The World Solar Challenge is a race that is held in Australia every other year. The participating teams start in Darwin and have six days to reach Adelaide, 3,000 kilometres away. During this journey, their vehicles may only use solar panels with a maximum surface area of six square metres.

CPV4ALL

In cooperation with the Netherlands Organization for Applied Scientific Research (TNO) and several foreign research partners, Neways started the CPV4ALL project in 2013. It is a project to develop a new concept for the conversion of sunlight into electricity and heat. This concept is especially suited for applications in less developed countries, preferably around the equator, and is aimed at reducing the use of fossil fuels (electricity) and deforestation (heat). Neways develops the electronic components required for this project and will in a later stage produce them.

Neways provides support in the areas of electronics architecture and design, cabling and the production of electronics, but also with regard to project management and the development and verification model. With this contribution, Neways aims to promote technological developments for sustainability and environmental friendliness.

Technology and innovation

Neways seeks to stimulate the role of technology and innovation in society. Each year, Neways has numerous available traineeships and graduate internships for apprentices and students of all levels. Several operating companies also have intensive internal training courses for students. Many of these students and apprentices are offered a contract after their studies.

Conclusion

In the past year, we have all worked hard on the Group-wide improvement programme. Sustainability is indissolubly linked to ceaselessly making our interactions with customers and other stakeholders better, smarter and more aware. With 13 operating companies ranging from 47 to 747 employees, and a relatively small, efficient holding company, Neways has a flat organisational structure. Therefore each operating company has a high degree of operational responsibility. The strategy and the associated CSR policy are increasingly being adopted at the Group level.

Most of the operating companies started working in recent years to improve their sustainability performance, and measurements show tangible improvements. In the coming year, we want to coordinate, review and stimulate these efforts on a Group-wide basis by defining a CSR policy at the central level. Within Neways, responsible officials will be deployed at both the operating company and the holding company levels and be tasked with establishing a Group-wide CSR policy, promoting internal awareness and realising focus areas as part of that sustainability policy.

SigmaXG

Better and faster internet connections makes working from a distance progressively easier. The company Technolution, based in Gouda in the Netherlands, is targeting the expected growth of IP infrastructure with its new SigmaXG Video-over-IP. Demand for video is expected to be the driver of 80% of that growth.

This development is especially important in the medical sector. Increasingly, hospitals have digital operating theatres enabling sharing of videos between different locations in a hospital. Medical applications are especially dependent on optimal image and sound quality without any lagging.

Neways advised Technolution on the development of the SigmaXG, a Video-over-IP-System. The advantages of SigmaXG are its simplicity and scalability. A single network cable is used for video, audio, USB and control signals. The combination of a decoder and an encoder in a single product means its production, logistics and installation are very efficient.

In tandem with Technolution, Neways carried out a complete Design For Excellence process resulting in an optimal production process. Being involved as early as the design and testing phase aided Neways in setting up the production process to facilitate cost-efficient and high-volume production by Technolution. With the help of Neways, Technolution is well positioned to meet the high quality requirements for the SigmaXG.

Governance and compliance

The Supervisory Board, Board of Directors and management team

Situation as at 31 December 2016

SUPERVISORY BOARD*

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

Henk Scheepers	Appointed Chairman in 2015
	First appointed in 2012, Vice Chairman
	Present appointment until 2020
	Nationality: Dutch
	Positions: Former Senior Vice President ASML / Executive Committee member / Director ASML Netherlands BV
	Chairman of the Supervisory Board, Solliance
René Penning de Vries	First appointed in 2013
	Present appointment until 2017
	Nationality: Dutch
	Positions: Former CTO and member of the Board of Directors, NXP Semiconductors
	Supervisory Director, Brabantse Ontwikkel Maatschappij (BOM)
	Chairman, Stichting Health Valley
	Supervisory Board member, QuTech
	Figurehead ICT Top Team (EZ)
	Supervisory Board member, St. Maartenskliniek
Peter van Bommel	First appointed in 2015
	Present appointment until 2019
	Nationality: Dutch
	Positions: CFO and member of the Board of Directors of ASM International N.V. (ASMI)
	Member of the Supervisory Board of KPN N.V., reappointed in 2016
	Chairman of the Audit Committee of KPN N.V. since 2016
	Non-executive director of ASMPT (Hong Kong)
	Former CFO and member of the Board of Directors, NXP

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

BOARD OF DIRECTORS

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

GROUP CONTROLLER

Peter Wisse (1959) (m)

MEMBERS OF THE NEWAYS MANAGEMENT TEAM

Peter Bouwsema (1968) (m)	Corporate Head of Supply Chain
Gijs van Dam (1975) (m)	Corporate Head of Engineering
Chantal Eberson (acting) (1985) (f)	Corporate Head of HR
Vacancy (m/f)	Managing Director Neways Neunkirchen
Oliver Seifert (1969) (m)	Managing Director BuS Elektronik
Vacancy (m/f)	Corporate Head of Procurement
Harrie van Houtum (1959) (m)	Corporate Head of Operations
Gerard Jacobs (1967) (m)	Managing Director Neways Cable & Wire Solutions
Joop Kempe (1963) (m)	Corporate Head of ICT
Hans Ketelaars (1957) (m)	Managing Director Neways Technologies
Jeroen Knol (1968) (m)	Managing Director Neways Micro Electronics
Bob Konings (1971) (m)	Managing Director Neways Industrial Systems
Robert Loijen (1976) (m)	Managing Director Neways Advanced Applications
Ruud Meeren (1983) (m)	Manager Legal Affairs
Jörg Neukirch (1958) (m)	Corporate Head of New Business
Michel Postma (1972) (m)	Managing Director Neways Leeuwarden

Corporate Governance

Neways endorses the principles of good corporate governance. We set store by the principles of integrity, accountability and transparency, and by compliance with these principles in exercising supervision and in managing the company.

Governance structure

Neways (Neways Electronics International NV) is a two-tier company under Dutch law. Our corporate governance structure is based on Book 2 of the Netherlands Civil Code, the articles of association and the Dutch Corporate Governance Code. The corporate governance policy, including the associated relevant regulations and reports, has been posted on the corporate website. All aspects of the corporate governance policy are periodically evaluated.

Corporate governance statement

The consideration of the interests of all the Group's stakeholders that is required by Dutch law and under the Dutch Corporate Governance Code is an important foundation for the Group's corporate policy. Neways does not use any anti-takeover or control mechanisms.

This statement is included here in accordance with Section 2a of the Dutch Decree Adopting Further Rules on the Contents of Annual Reports (*Vaststellingsbesluit nadere voorschriften inhoud jaarverslag*) of 20 March 2009 ('the Decree') and is also available on the corporate website, in the section on Corporate Governance. For announcements in this statement within the meaning of Sections 3, 3a and 3b of the Decree, please refer to the relevant passages in the 2016 annual report. The following announcements should be deemed to have been inserted and repeated here:

- Compliance with the Code's principles and best practice provisions (page 48, 'Corporate Governance')
- The principal features of the management and control system for the Group's financial reporting process (page 56, 'Risks and risk management)
- The performance of the shareholders' meeting and its principal powers, and shareholder rights and how they can be exercised (page 53, 'Regular powers of the shareholders' meeting')
- The composition and performance of the Board of Directors (page 50, 'Board of Directors')
- The composition and the performance of the Supervisory Board (page 51, 'Supervisory Board' and page 67, 'Report of the Supervisory Board')
- The rules for appointing and replacing members of the Board of Directors and the Supervisory Board (page 53, 'Regular powers the shareholders' meeting')
- The rules for amending the company's articles of association (page 53, 'Regular powers of the shareholders' meeting')
- The powers of the Board of Directors relating to the possibility of issuing or repurchasing shares (page 53, 'Regular powers of the shareholders' meeting')
- Related-party transactions (page 105, 'Information about affiliated parties')

"The consideration of the interests of all stakeholders is an important foundation for the corporate policy."

The following is stated with regard to three specific best practice provisions in the Code:

Best practice II.3.2 - II.3.4:
No transactions were conducted during the 2016 financial year that involved conflicts of interest of members of the Board of Directors.

Best practice III.6.1 - III.6.3:
No transactions were conducted during the 2016 financial year that involved conflicts of interest of members of the Supervisory Board.

Best practice III.6.4:
All transactions between Neways and natural persons or legal entities holding ten percent or more of the shares in Neways were subject to contractual terms that are commonly applied in the sector.

Deviations from the Dutch Corporate Governance Code

Neways endorses most aspects of the Code and applies the 'comply or explain' principle. Owing to the size of the Group we consider it to be in the interests of the company to deviate from the best practice provisions in some respects, as described below:

- Members of the Board of Directors are appointed for open-ended periods. Periodic appointment as prescribed in the Code entails a risk for the implementation of the corporate policy, which is of a long-term nature (best practice II.1.1). Neways respects contractual agreements with members of the Board of Directors entered into before the Code came into effect
- No specific committees have been formed within the Supervisory Board (best practice III.5.1), given the size of the Supervisory Board. The role of the Audit Committee is filled by the full Supervisory Board
- Neways does not facilitate possibilities for following presentations for analysts and investors by means of webcasting, in light of the costs (best practice IV.3.1)
- Neways does not have any written regulations governing the possession of and transactions in securities in other listed companies by members of the Board of Directors and the Supervisory Board, as this is seen as the personal responsibility of the relevant members of the Board of Directors and the Supervisory Board (best practice III.6.5)
- The term of office for members of the Supervisory Board is not subject to any maximum time limit. Neways believes that the Supervisory Board members' experience and their knowledge of the Group should dictate how long they stay in office. After each four-year term, and based on careful consideration, Supervisory Board members may be reappointed for a further four years (best practice III.3.5)
- Prospective members of the Board of Directors and the Supervisory Board are selected with a view to a mixed composition in terms of age, experience, expertise, personality, gender and social background. At present the Board of Directors and the Supervisory Board lack diversity in terms of both male and female representation. However, diversity within Neways as a whole and among the various management teams is increasing.

New members who are put forward for the Board of Directors and the Supervisory Board are selected based on experience, expertise and personality.

Anti-takeover mechanisms

Neways is a two-tier company, does not have a trust office and does not issue depositary receipts for shares.

Internal audit function

"We set store by good corporate governance and will commit to the revised Corporate Governance Code."

A decision was taken in 2016 to create a separate internal audit function with effect from 1 January 2017. The purpose of an internal auditor is to increase compliance across the entire range of operations. The internal auditor can provide the Board of Directors with an objective assessment of the quality of and the compliance with improvements implemented and the standardisation of business processes, thus making adjustments possible when and where necessary. The audit function has an independent position in the organisation and an open, direct line to the Supervisory Board. In the Supervisory Board's opinion, the internal auditor plays an important part within Neways with a view to risk management at a time when EMS businesses need to respond more rapidly to changes, shifts in customer requirements and increasing regulatory pressure in areas such as sustainability and corporate social responsibility.

Whistleblower policy

Following approval by the Works Council a whistleblower policy has become effective. The whistleblower policy facilitates reporting of irregularities by means of a clear and formal procedure. The whistleblower policy is based on the principle that any suspicion of an irregularity needs to be examined internally first, so that Neways itself can investigate and eliminate the irregularity. Only if that is not possible or fails to lead to an improvement will an irregularity be reported externally. By virtue of this policy we comply with best practice II.1.7 of the Corporate Governance Code and the Dutch House for Whistleblowers Act (*Wet Huis voor Klokkenluiders* - 'WHK').

New Corporate Governance Code

The revised Corporate Governance Code was published on 8 December 2016. We set store by good corporate governance and will also commit to the new Code and application of the 'comply or explain' principle in the 2017 annual report.

Board of Directors

Duties

The Board of Directors is responsible for the central management of the activities of Neways, its strategy, including the implementation of the Group-wide improvement programme, and the performance of the Group. The members of the Board of Directors work closely with each other and alternating members of the Board of Directors visit operating companies every two months. The Board of Directors receives detailed weekly and monthly progress reports. The Board of Directors is also responsible for compliance with all relevant laws and regulations and the effectiveness of the internal risk management and control system. The Board of Directors performs these duties under the supervision of the Supervisory Board.

Appointment

Members of the Board of Directors are appointed by the Supervisory Board for an open-ended period. The General Meeting of Shareholders is notified of all planned appointments. The Board of Directors provides all information sufficiently far in advance and provides whatever resources are necessary for the Supervisory Board to properly carry out its supervision duties. Members of the Board of Directors are not permitted to serve on more than two supervisory boards, nor may they be chairman of the supervisory board at any other company. See the section entitled 'The Supervisory Board, Board of Directors and management team' in this annual report for further details about the composition of the Board of Directors in 2016.

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

Remuneration policy
In 2016 the Supervisory Board undertook preparations for a new remuneration policy for the Board of Directors. The new policy is aimed at a closer correlation with the achievement of strategic ambitions and places greater emphasis on long-term value creation. This also ensures closer alignment of the remuneration of the members of the Board of Directors with the interests of the shareholders. The Supervisory Board will submit a proposal to the shareholders at the General Meeting of Shareholders for the approval of the new remuneration policy.

Neways does not have any outstanding loans to members of the Board of Directors. No guarantees have been issued to members of the Board of Directors. Information on the remuneration of members of the Board of Directors in 2016 is disclosed in Note 23 to the financial statements.

Supervisory Board

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

Duties
The Supervisory Board supervises the policies pursued by the Board of Directors and the general course of business within the Group. The Supervisory Board also acts as an advisory body to the Board of Directors. For purposes of fulfilling this duty, the Supervisory Board focuses on the interests of the company and weighs the relevant interests of all relevant stakeholders. The Supervisory Board and its individual members each have the responsibility to demand all information from the Board of Directors and the external auditor that the Supervisory Board considers to be necessary to be able to adequately fulfil its supervisory role. If necessary, information may also be requested from the company's officers, external advisers and the Supervisory Board's own advisers. Neways provides the necessary resources for this.

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

The Supervisory Board appoints a chair and a vice chair from among its number. The chair may not have previously served on the Board of Directors. Given the Group's size, no formal induction programme is in place for members of the Supervisory Board. For more information on the composition and relevant positions outside the group of the members of the Supervisory Board in 2016, see the section 'The Supervisory Board, Board of Directors and management team' in this annual report.

Suspension and dismissal

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

Remuneration policy

Upon a proposal of the Supervisory Board, the General Meeting of Shareholders may award the members of the Supervisory Board remuneration. The remuneration is not linked to the company's results. See Note 23 to the financial statements for more information about the remuneration of the Supervisory Board in 2016.

General Meeting of Shareholders

Right to place items on the agenda

On 1 July 2013, pursuant to the Dutch Corporate Governance Act (Wet corporate governance, sometimes referred to as the 'Frijns' Act), a series of changes were introduced that impact (among other things) the rules for the General Meeting of Shareholders. The threshold for the number of shareholders required to exercise the right to place items on the agenda (Section 114a(2), Book 2 of the Netherlands Civil Code) was raised from 1% to 3%. The alternative threshold of €50 million for the same right for publicly traded companies was abolished. In accordance with Neways's articles of association, this change does not affect the General Meeting of Shareholders of Neways. The agenda item threshold of 1% and the alternative threshold of €50 million will also continue to apply in the revised articles of association, the approval of which is included as a proposal on the agenda of the General Meeting of Shareholders.

Decision-making process

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

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

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

Powers

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

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

The agenda and notes to the agenda for the annual General Meeting of Shareholders to be held on 18 April 2017 are available on the corporate website of Neways.


Ingrid Lahaije
Manager Human Resources
Neways Technologies in Son (NL)
Maja Pohle
Manager Human Resources
BuS Elektronik in Riesa (DE)

Ingrid Lahaije and **Maja Pohle** work as Managers Human Resources at Neways Technologies in Son (NL) and BuS Elektronik in Riesa (GER) respectively and have an important role in the roll-out of the improvement programmes 'Neways DNA' and '*Lean Leadership*'. They are tasked with ensuring that these programmes are implemented and that the improvements achieved are maintained.

Ingrid:
"The increased motivation of our employees to add value for our customers is largely a result of these programmes.

Thanks to the *lean leadership workshops*, our managers and team leaders are now even better equipped to get the best out of our employees so that they are motivated, both individually and as part of a team, to provide the best service to our customers.

I work every day to safeguard the improvements, for instance by actively coaching managers and team leaders. On the one hand, I monitor whether they really act in accordance with what they learnt during the *lean leadership workshops* to maintain a high level on the shop floor, and on the other hand I am available as their point of contact if they have any questions or need assistance.

This is essential for our transformation from EMS to product life cycle manager, as our employees will need to think more creatively to provide genuine added value for our customers, who present us with increasingly complex challenges."

Maja:
"To foster more creative thinking in our employees we decided to give them greater involvement in the decision-making process. Thanks to the improvement programme, employees at all levels of the organisation are more self-confident and empowered by the important role they play in providing high-quality services to customers.
An example of the roll-out in Germany was an assignment that we organised for team leaders. Their task was to organise a workshop with their own team members. Although they were initially a little nervous, in the end everyone responded very positively. For many employees, this was the first time that they applied tips and tops (strengths and points for improvement) within their department."

Ingrid and Maja also underline that the German and Dutch employees can learn a great deal from each other by working with each other across borders.

Ingrid:
"Many Dutch employees have now acquired a good knowledge of German to help us work with each other. We have found that our German colleagues appreciate this enormously."

Maja:
"A visible difference that I have noticed in the last two years at BuS is that fewer ties are being worn. Our Dutch colleagues are obviously a little less hierarchically-minded in their interactions."

Risks and risk management

As an internationally operating listed company, Neways is faced with a range of different risks. Those risks are both specific for the market in which Neways and its customers operate and general in the form of business risks. The EMS market is characterised by competition on price, a complex logistical chain and increasing regulation of the quality and sustainability of electronic applications. In addition, we are faced with cyclicity and customer demand that is subject to short-term plan adjustments. Under the influence of globalisation and technological progress, we are seeing changes in the demand from customers and the requirements that large players in the manufacturing industry (OEMs) place on their outsourcing partners. Our response to this is described in the section Markets and trends and in the section Ambition and strategy. Our risk management policy is aimed at managing the risks as well as possible by means of our internal control systems and at converting them into opportunities where possible in line with our strategy. This is a continual process.

Market and commercial risks

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

The acquisition of BuS Group in 2014 improved the spread across market sectors and in particular substantially reduced the dependence on the cyclical semiconductor sector. The spread is now more evenly balanced and that is reflected in more stable trends in orders, revenue and results. Nonetheless, further reducing the sensitivity to cyclical economic fluctuations and short-term plan adjustments of customers remains a priority. This can be achieved by expansion of the activities in more stable market sectors such as medical and defence and by better coordination and further flexibilisation of the labour organisation as a whole.

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

Neways is well positioned and has the required scale to be able to respond to this shift in demand from customers. This matter has the full attention of the Board of Directors, as it impacts the core of the strategy and the associated Group-wide improvement programme.

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

Neways complies with all relevant product and environmental requirements. Together with its first and second tier suppliers, Neways is working to improve the traceability of purchased materials to obtain greater insight into their origin and to be able to report on them.

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

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

Financial risks	
Liquidity and solvency	• Conservative and solid financing policy • Strong cash flow management • Favourable supplier finance terms to promote earlier payment • Renewed and expanded Group facility in 2016
Receivables	• Careful assessment and minimisation of credit risks with new customers • Credit insurance
Inventories	• Monitor and manage inventories • Introduction of system for unique article coding

Competition on price

Globalisation and technological progress are resulting in continual pressure on prices of electronic applications. The EMS market is traditionally a production industry that is accustomed to competing on price. There is a risk that the margins of Neways will be squeezed due to price pressures.

Thanks to its focus on long-term partnerships in the field of technology and life cycle management, Neways is able to offer customers more added value and the best total cost of ownership. The ability to provide input into customers' thinking from an early stage of new product introductions, and to work on development and innovation with them, is crucial in this regard. This enables us to deliver the best quality at the lowest total costs across the entire lifecycle of the product.

Scarcity of technical knowledge

Scarcity in the labour market for technical engineers and systems architects in particular may adversely affect the execution of the strategy and production and development capacity.

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

Operational risks

Chain complexity

The EMS market is characterised by a complex supply chain and that complexity is increasing due to growing demand for box-build systems. Materials purchasing for such systems is often many times more complex than for components. Quality and supply problems may disrupt planning and production processes, as a result of which Neways may be unable to fulfil commercial agreements.

The Group-wide improvement programme comprises a simplification of the supply chain; its aims include standardisation of materials purchasing, reduction of the number of suppliers and selection of first-tier suppliers on the basis of interdependence. Neways continually monitors the risks of delayed delivery per product group and per supplier. Activity in the purchasing and manufacturing process is not set in motion until the customer order and/or contract is in place. If the order or contract is cancelled, the costs that have been incurred, such as the inventory costs for purchased components, are spread across the logistics chain. This approach limits the financial risks for Neways. However, in many cases delivery times dictate that purchasing activity needs to commence based on the customer's projections. If no confirmed order results from the projection, or if the confirmed order is put off, Neways is exposed to a financial risk, which is expressed chiefly in inventory costs and/or costs of obsolescence of particular components. Where possible, arrangements are made with both suppliers and customers.

"Growing demand for innovation from OEMs in collaboration with EMSs to increase product functionality and lower total cost of ownership."

The risk increases as Neways starts to play a more and more prominent role in the chain by taking on part of the development process for its customers and integrating purchased components in the products to be manufactured. This risk will manifest itself if, for instance, components are not up to the agreed quality and/or are not delivered on time. Partly with a view to mitigating this risk, we have launched an intensive programme in which we will work more closely with a more limited number of suppliers and be able to reach better agreements in order to improve the desired quality, logistical performance and technical support.

ICT systems

Failing ICT systems or failing implementation of new ICT systems may lead to disruption of the operational processes, the general operations management and the internal and external reporting. As a result, Neways may not be able to comply with its obligations vis-à-vis stakeholders. There is an increasing focus on cybersecurity within the control system, focusing in the first instance on the day-to-day risks in operations.

Neways has internal and external back-up systems to mitigate this risk as much as possible. The new ERP system is being phased in per operating company, with interim evaluation, testing and execution of improvements in each instance before the next physical implementation is started.

Continuity of production

Emergencies and other unforeseen circumstances can pose a risk for the continuity of production. Neways invests continually in the safety of its production facilities. Regular safety and working conditions inspections are also carried out at those facilities.

Financial risks

Liquidity and solvency

If liquidity and/or solvency is too low, there is a risk that creditors will claim the amounts due to them from Neways. OEMs are increasingly expected to call on Neways to contribute more to investments as a long-term partner.

Neways is active in the high-tech sector, but is not a capital-intensive business. We pursue a conservative and solid financing policy with a strong focus on cash flow management. In connection with a number of long-term partnerships, agreements have been made in the field of supplier finance, resulting in swifter payment to us on average. The Group facility that was renewed and expanded in 2016 offers more financial scope on better terms.

Receivables

During cyclical slumps in particular, there is a risk that customers of Neways prove unable to meet their payment obligations, which may lead to financial losses. We carefully assess this risk when we enter into a new customer relationship and subsequently minimise it. In addition, Neways has credit insurance.

Inventories

Free inventories, i.e. inventories that are not covered by orders or contracts, represent a risk for Neways and can increase the working capital tied up and put pressure on cash flow and margins. Together with its suppliers, Neways continually focuses on monitoring and managing inventories. The initiatives regarding the supply chain are designed to contribute to a lasting reduction of inventory levels. One of these is a system for uniform article coding that is aimed at reducing the volume of free, uncovered inventories.

Controls

The Board of Directors is responsible for the design and effectiveness of the risk management and control systems. There is accordingly a continual focus on risk management, which is an integral feature of the coordination and management of the Group. It is also a topic that is systematically discussed by the Board of Directors and the Supervisory Board.

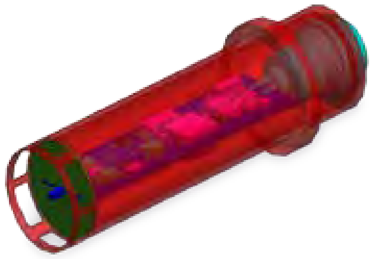
Our internal control systems are designed to control the principal risks to which we are exposed. In addition, the systems contribute to better assurance and streamlining of our business processes, compliance with laws and regulations and the achievement of our strategic ambitions.

The separation of functional controls is also safeguarded within the systems. Such systems can, however, never provide full assurance that objectives will be achieved, nor prevent all material misstatements, losses, fraud and breaches of laws and regulations.

Risks are continually monitored by the Board of Directors. The operating companies report revenue and order intake figures on a weekly basis. A consolidated statement of financial position and profit and loss account are drawn up on a monthly basis, with a summary of the key financial figures, including a statement of cash flows, and elements of operational performance. This also includes forecasts for the profit and loss account and the statement of cash flows for the full financial year, as well as a balance sheet forecast for the end of the financial year. A copy of the consolidated monthly reports is provided to the Supervisory Board. Visits are made to the operating companies every two months by members of the Board of Directors to discuss key operational matters and points for improvement. As from 1 January 2017, Neways has an independent internal audit function, which further strengthens the risk management and compliance of the Group.

In-control statement

Given the above, the Board of Directors confirms that to the best of its knowledge the risk management and control systems provide reasonable assurance that the financial reporting contains no material misstatements and that the risk management and control systems operated effectively in 2016.



Advanced thermal sensor

Neways has developed an advanced thermal sensor as part of the milli-Kelvin project. This sensor is able to measure temperatures and differences in temperature with great accuracy.

The milli-Kelvin sensor is absolutely essential for applications such as Air Showers, equipment that is used in cleanrooms to ensure that production and research spaces remain completely free of dust and dirt in order to prevent contamination. This milli-Kelvin sensor has countless other industrial applications, from the biomedical industry to the production of semiconductors. Apart from temperature control of an Air Shower, the sensor also makes it possible to achieve a constant production temperature. During the production of semiconductors, which involves placing circuits on tiny components (wafers), the slightest deviation in temperature can lead to manufacturing faults.

The milli-Kelvin sensor is an example of a knowledge area in which Neways was able to take on a leading role in the development stage.

Board of Directors' statement of responsibilities on the financial report

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

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

The 2016 financial statements give a true and fair view of the assets, liabilities and financial position as at 31 December 2016 of Neways Electronics International N.V. and the Group companies included in the consolidation, and of the results for the year then ended;

The 2016 Report of the Board of Directors gives a true and fair view of the position as at 31 December 2016 of Neways Electronics International N.V. and its affiliated Group companies included in the consolidation and of the developments during the year then ended as presented in the consolidated financial statements, and the Report of the Board of Directors describes the material risks facing the company.

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

Shares in Neways

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

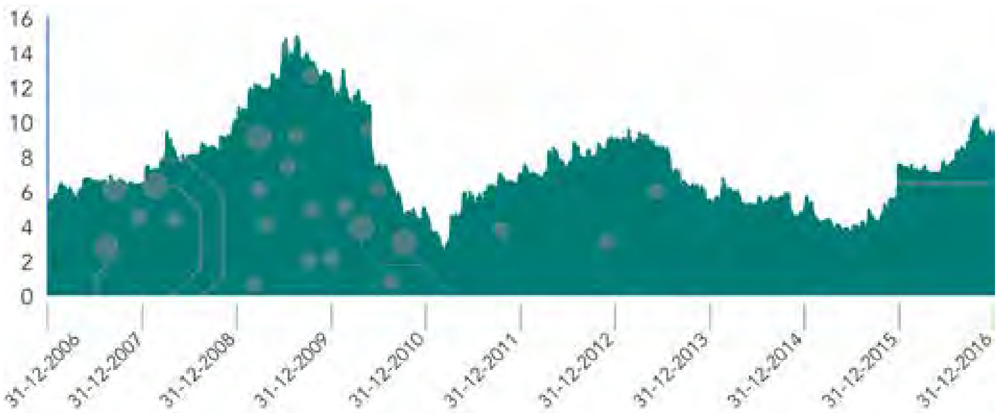
Neways share capital

The share capital of Neways consists of ordinary shares with a nominal value of €0.50 per share. At year-end 2016, the issued share capital consisted of 11,458,801 shares. During the year 2016, exercises of employee options increased the share capital by 57,500 shares.

	2016	2015
Year-end	11,458,801	11,401,301
Weighted average	11,418,822	11,378,287

Movements in share price and ratios

	2016	2015
Highest price	€ 10.21 (31 October)	€ 10.45 (2 March)
Lowest price	€ 6.65 (4 May)	€ 6.78 (15 December)
Closing price	€ 9.28	€ 7.50
Net profit per share	€ 0.85	€ 0.28
Dividend	€ 0.34	€ 0.11
Price-earnings ratio at year-end	10.9	26.8
Market capitalisation at year-end	€ 106,337,673	€ 85,509,757



Shareholders

Pursuant to the Dutch Disclosure of Major Holdings in Listed Companies Act (*Wet Melding Zeggenschap*, or WMZ), interests in the issued capital of Neways of 3% or more are required to be disclosed to the Netherlands Authority for the Financial Markets (AFM). At year-end 2016, the following shareholders were known to hold interests of at least 3%.

Shareholder	%
VDL Beleggingen BV	26.1
Stichting Administratiekantoor Thymen	19.7
Todlin NV	9.5
Menor Investments BV	6.0
Decico BV	5.8
Otterbrabant Beheer BV	5.4
Add Value Fund	3.3

Most of the shares that have been issued are held by Dutch institutional investors, family offices and private investors.
As at 31 December 2016, the Board of Directors did not hold any shares in Neways.

Dividend policy

Neways targets a dividend distribution of 40% of net profit. Distribution of dividends is subject to various conditions, including that solvency (guaranteed capital adjusted for deferred tax assets and intangible assets/total equity) is at least 35%. Based on the profit realised in 2016 of €0.85 per share, the dividend proposal presented to the General Meeting of Shareholders for the 2016 financial year is €0.34 per share, to be taken in cash. This represents a payout ratio of 40%.

Share options

The Supervisory Board decides each year whether to grant option rights on shares to the members of the Board of Directors and some other officers. This decision is presented to the General Meeting of Shareholders for approval. Decisions to grant options include a consideration of the relevant operating company's targets, both already realised and yet to be realised, and the individual performance of the manager concerned.

The exercise price for the options is the closing price on the seventh day after the financial statements 2016 are made available for inspection. Outstanding options have a term of at least three years. Each option entitles its holder to one ordinary share in Neways. Neways's options policy does not state that shares will be repurchased to counteract the dilution effects of exercising options.

In 2016, a total of 45,000 options were granted to the members of the Board of Directors, and a total of 27,500 to other officers, at an exercise price of €7.10 and with a term of five years. Members of the Board of Directors and other officers exercised 57,500 options during the year. The members of the Board of Directors have sold all shares obtained by exercising the options. See Note 23 to the financial statements for further details on the options granted to the members of the Board of Directors.

In the proposal for the new remuneration policy presented for approval to the General Meeting of Shareholders, the current option scheme is discontinued and replaced with a performance-related share plan.

Key dates

3 March 2017	Publication of annual results
3 March 2017	Publication of annual report 2016
18 April 2017	General Meeting of Shareholders 2017
18 April 2017	Publication of interim trade report
20 April 2017	Ex-dividend listing
21 April 2017	Record date
28 April 2017	Dividend made payable
29 August 2017	Publication of half-yearly results
19 September 2017	Open day for shareholders
31 October 2017	Publication of interim trade report

Prevention of insider trading

The European Market Abuse Regulation (MAR) has been applicable with effect from July 2016. On the basis of these new rules, Neways has reviewed both the internal and external treatment of price-sensitive information and drawn up a new Insider Dealing Policy. Neways assesses the treatment of price-sensitive information within the organisation on a periodical basis. These regulations apply not only to the Supervisory Board and the Board of Directors, but also to the management layer below the level of the Board of Directors and all head office staff who come into contact with price-sensitive information. Neways has a Compliance Officer to monitor and enforce strict compliance with the regulations.

Investor relations

Neways is committed to transparency and the Investor Relations policy is aimed at regular communications with shareholders and other financial stakeholders.

In addition to the publication of the annual report, the half-yearly report and the interim trade reports, there are various moments during the year when the Supervisory Board and the Board of Directors communicate with shareholders. The most important of these moments every year is the General Meeting of Shareholders.

Neways also organises annual open days at one of the operating companies where shareholders have the opportunity to exchange views with members of management in an informal setting.

Visit newayselectronics.com to find out more about shares in Neways. You can also contact us at:
E: info@newayselectronics.com
T: +31 (0)40 267 92 05

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

Report of the Supervisory Board

Report of the Supervisory Board

During 2016 the Supervisory Board performed its supervisory duties in line with the applicable laws and the articles of association of Neways Electronics International NV. Further, we supported and advised the Board of Directors on an ongoing basis.

Corporate governance

Neways places great importance on good corporate governance and compliance with the Dutch Corporate Governance Code. In 2016, the Group complied with all recommendations from that Code, with the exception of a number of best practice provisions. See the section entitled 'Corporate governance' and the corporate website for more information.

In 2017, the Supervisory Board will consider the revised Dutch Corporate Governance Code that was published in December 2016. If applicable, proposals for changes in this connection will be presented to the General Meeting of Shareholders.

Composition of the Supervisory Board

The Supervisory Board consists of three members. There were no changes in the composition of the Supervisory Board during 2016. All three of its members are independent, in accordance with the Dutch Corporate Governance Code.

Composition of the Board of Directors

The Board of Directors has consisted of three members since 2015. There were no changes in the composition of the Board of Directors in the past year, which was the first full year under the leadership of the new Board of Directors.

As Supervisory Board, we recognise the importance of diversity, without, however, allowing ourselves to be limited by it. The primary considerations are suitability on the basis of experience, specialist (technical) knowledge and skills.

Supervision and advice

Good progress was achieved in 2016 under the leadership of the Board of Directors on the implementation of the Group-wide improvement programme. Significant steps were taken, especially with regard to the integral management and positioning of the operating companies and the implementation of changes to promote more performance- and customer-focused work practices. We see the strategic choice to move up the value chain as technology and life cycle partner of customers as a powerful evolution rather than as a revolution. The direction is clear and is supported throughout the Group.

In the past year, we consulted extensively with the Board of Directors on how to translate the strategy of the Group to the various operating companies. More specifically, we discussed the impact of the transition on the business risks and how best to manage these during the transition. The principal challenge for the Board of Directors and the management teams is to change the business processes, to simplify them and to integrate them in all operating companies. This is a complex and in some respects unwieldy process, especially with regard to supply chain design. Accordingly, a structured systematic approach has been opted for, with interim checks and balances, to prevent disruptions to the ongoing business processes.

The Supervisory Board meets formally with the Board of Directors at least five times each year. With a view to the improvement programme and the changes taking place within Neways, a total of six meetings were held in 2016 at which the Board of Directors was present. All members of the Supervisory Board attended these meetings. The Supervisory Board also meets at least once each year without the Board of Directors to discuss its own performance.

All regular topics were discussed during these meetings. These included the ongoing financial results, the financial position, the budgeting and reporting, the effectiveness of the internal control systems and the remuneration of the individual members of the Board of Directors. Discussions also focused on how Neways will shape the adopted strategy going forward. A crucial question in that connection is how Neways can respond more effectively, in organisational terms, to short-term plan adjustments by customers and changes in demand. The meetings were also used to discuss in detail the initiatives taken and progress of the Group-wide improvement programme, zooming in specifically on the simplification of the complex logistical process. This relates, for instance, to standardisation of materials purchasing, reduction of the supplier base and the selection of first-tier suppliers on the basis of defined criteria.

Contact with the Works Council

During the year, the chairman of the Supervisory Board attended two meetings of the Central Works Council (Centraal Overleg Neways, or CON). Informal consultation also took place on several occasions between members of the Supervisory Board and members of the Works Council. The further flexibilisation of the deployment of labour capacity was an important topic for discussion. A more flexible use of production employees is necessary to improve Group-wide capacity utilisation and to be able to respond more effectively to short-term plan adjustments by customers. Broader employability of employees also ensures that employees learn more from each other and can exchange knowledge. This contributes to the aim of 100% first time right in terms of quality and supply reliability. This flexibilisation of labour will be further implemented in the years ahead in close consultation with the operating companies and the Works Council.

Contact with shareholders

Most communications with shareholders are conducted through the Board of Directors. Pursuing transparency is, however, an important aim that the Supervisory Board shares with the Board of Directors. Direct communications between shareholders and the Supervisory Board therefore took place at various moments during the past year.

The most important moment is the General Meeting of Shareholders, and Neways also organises an annual open day for shareholders. This year the meeting took place at Neways Advanced Applications in Son. During this day, extensive discussion took place on reducing the number of suppliers and the importance of optimising collaboration with existing suppliers. The Managing Director of Neways Advanced Applications BV gave a presentation in which he provided information on the improvement programme *Up to the next level*.

Financial statements

The Board of Directors has presented the 2016 financial statements to the Supervisory Board. The financial statements have been discussed in detail with the external auditor, KPMG, which has issued an unqualified auditors report. This report is included in the other information in this annual report. The audit plan was also discussed with KPMG.

The Supervisory Board finds that the report of the Board of Directors for 2016 gives a true and fair view of the Group's financial position and profitability. All members of the Supervisory Board have signed the financial statements 2016.

The General Meeting of Shareholders will be advised to adopt the 2016 financial statements and to grant the Board of Directors and the Supervisory Board discharge from liability for their policies and their supervision of those policies, respectively, over the past financial year.

Profit and dividend

Last year the company realised adjusted net profit of €9.2 million before one-time income and expenses and Purchase Price Allocation (PPA). This represents a 47% improvement relative to 2015. Taking into account the one-time income and expenses and PPA, the net profit was €9.7 million, compared with €3.2 million in 2015.

The Board of Directors proposes – with the approval of the Supervisory Board – to distribute a dividend of €0.34 per share for the financial year 2016, to be taken in cash. The dividend payable for 2016 represents 40% of the net profit, which is in line with the dividend policy.

Appreciation

Neways took a number of good steps in 2016 on the way to a successful transition. Its first effects are reflected in improved profitability. More important, at this stage, are the huge drive and enthusiasm with which the plans and actions initiated are being executed. This new dynamism that is arising within the organisation is an enabling condition for achieving the ambitions of Neways in the coming years and for the creation of value for all stakeholders.

The Supervisory Board would like to express its gratitude to the Board of Directors, the management teams and all employees. They can look back with satisfaction on what has been achieved in the past year.

Son, 2 March 2017

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

Financial statements 2016

Consolidated statement of financial position

Amounts x €1,000 as at 31 December	Notes	2016	2015
Fixed assets			
Property, plant and equipment			
Land and buildings	5	16,127	16,783
Plant and equipment	5	18,122	18,017
		34,249	**34,800**
Intangible assets			
Software	6	6,698	6,444
Goodwill	6	2,754	2,754
Customer relationships	6	4,020	4,876
		13,472	**14,074**
Financial assets			
Equity accounted investees	23	10	10
Deferred tax assets	7	4,293	4,501
		4,303	**4,511**
Total fixed assets		**52,024**	**53,385**
Current assets			
Inventories			
Raw materials and consumables	8	47,308	43,407
Work in progress	8	19,118	18,443
Finished products	8	19,854	19,782
		86,280	**81,632**
Receivables			
Trade and other receivables	9	48,470	39,873
Corporate income tax		147	640
		48,617	**40,513**
Cash and cash equivalents	10	**1,167**	**1,552**
Total current assets		**136,064**	**123,697**
Total assets		**188,088**	**177,082**

Amounts x €1,000 as at 31 December	Notes	2016	2015
Equity			
Issued and paid-in capital	11	5,730	5,701
Share premium		39,989	39,693
Retained earnings		32,324	24,243
Translation reserve	11	896	917
Equity attributable to holders of equity instruments in the parent company		**78,939**	**70,554**
Long-term liabilities			
Interest-bearing borrowings	13	5,342	11,151
Provisions	14	578	850
Pension and jubilee provisions	15	5,322	4,914
Deferred tax liabilities	7	755	3,322
		11,997	**20,237**
Current liabilities			
Bank overdrafts	13	19,890	10,779
Interest-bearing borrowings	13	5,949	11,158
Trade and other payables	17	63,264	55,440
Taxes and social security premiums		7,100	6,647
Corporate income tax		325	141
Provisions	14	624	2,126
		97,152	**86,291**
Total equity and liabilities		**188,088**	**177,082**

Consolidated statement of total comprehensive income

Amounts x €1,000	Notes	2016	2015
Revenue		393,198	374,118
Movements in work in progress and finished products		63	524
Raw materials and consumables		–239,410	–227,189
Employee expenses	18	–107,897	–104,029
Depreciation and amortisation	19	–8,216	–8,266
Other expenses	20	–25,958	–29,233
Operating profit		**11,780**	**5,925**
Finance costs	21	–2,113	–2,061
Profit before tax		**9,667**	**3,864**
Income tax	7	27	–644
Net profit		**9,694**	**3,220**
Other comprehensive income			
To be reclassified to profit or loss in subsequent periods:			
Foreign exchange differences arising from translation of non-Dutch subsidiaries		–21	327
Total other comprehensive income to be reclassified to profit or loss in subsequent periods:		**–21**	**327**
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement of the defined benefit pension liability	15	–513	503
Related tax	7	154	–151
Total		–359	352
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods:		**–359**	**352**
Other comprehensive income net of tax		**–380**	**679**
Total comprehensive income net of tax		**9,314**	**3,899**
Earnings per share (in €):	22		
- Earnings per share		0.85	0.28
- Diluted earnings per share		0.84	0.28

Consolidated cash flow statement

Amounts x €1,000	Notes	2016	2015
Operating activities			
Profit before tax		9,667	3,864
Adjusted for:			
Depreciation on property, plant and equipment	5	6,251	6,315
Amortisation on intangible assets	6	1,965	1,951
Costs of employee options granted	16	62	58
Finance costs	21	2,113	2,061
Movements in provisions and pension commitments		–1,366	2,309
Movements in working capital*		–4,967	–5,619
		13,725	**10,939**
Other movements:			
Interest expense paid		–1,761	–1,859
Corporate income tax paid		–1,379	–1,698
Cash flow from operating activities		**10,585**	**7,382**
Investing activities			
Payments to acquire intangible assets	6	–1,363	–1,305
Payments to acquire property, plant and equipment	5	–6,203	–3,197
Proceeds from disposals of property, plant and equipment	5	0	0
Sale of discontinued operation	5	–385	0
Cash flow from investing activities		**–7,951**	**–4,502**
Financing activities			
Proceeds from interest-bearing borrowings	13	0	89
Repayments of interest-bearing borrowings	13	–11,157	–8,344
Increase/decrease in withdrawals from bank overdrafts	13	9,111	4,691
Dividends paid to holders of ordinary shares	12	–1,254	0
Revenues from exercise of options		273	442
Cash flow from financing activities		**–3,027**	**–3,122**
Movements in cash		**–393**	**–242**
Net currency exchange difference		8	16
Cash and cash equivalents as at 1 January		1,552	1,778
Cash and cash equivalents as at 31 December		**1,167**	**1,552**
* **Movements in working capital**			
Inventories		–4,648	–2,225
Trade and other receivables		–8,597	–2,984
Trade and other payables		7,824	–745
Taxes and social security premiums		454	335
		–4,967	**–5,619**

Consolidated statement of changes in equity

Amounts x €1,000	Notes	Issued and paid-in capital	Share premium	Retained earnings	Translation reserve	Total equity
Balance as at 1 January 2015		**5,493**	**39,237**	**20,671**	**590**	**65,991**
Profit for the financial year				3,220		3,220
Other comprehensive income				352	327	679
Total comprehensive income net of tax		0	0	3,572	327	3,899
Issuance of shares	11	163	–163			0
Exercise of options	16	45	561			606
Issuance of share options			58			58
Total transactions with holders of shares in the parent company		208	456	0	0	664
Balance as at 31 December 2015		**5,701**	**39,693**	**24,243**	**917**	**70,554**
Profit for the financial year				9,694		9,694
Other comprehensive income				–359	–21	–380
Total comprehensive income		0	0	9,335	–21	9,314
Issuance of shares	11	0	0			0
Exercise of options	16	29	234			263
Issuance of share options			62			62
Dividends	12			–1,254		–1,254
Total transactions with holders of shares in the parent company		29	296	–1,254	0	–929
Balance as at 31 December 2016		**5,730**	**39,989**	**32,324**	**896**	**78,939**

As at 31 December 2016, the share premium includes a sum of €131,000 as a call option for the convertible loans.

Notes to the consolidated financial statements

1. INFORMATION ABOUT THE GROUP

The consolidated financial statements of Neways Electronics International N.V. as at 31 December 2016 will be presented for adoption to the General Meeting of Shareholders on 18 April 2017. Neways Electronics International N.V. is a company incorporated and domiciled in the Netherlands, whose shares are publicly traded on Euronext Amsterdam (symbol: NEWAY). Its registered office is in Eindhoven, and its effective place of establishment is in Son.

Neways Electronics International N.V. and its subsidiaries together form the Group. The Group is an international one-stop provider for advanced and integrated electronic components and systems for the industrial electronics sector.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of presentation of the financial statements

Neways Electronics International N.V. has not identified any material uncertainty that might give rise to serious doubts about the entity's ability to continue its operating activities on a going concern basis. The consolidated financial statements are presented based on historical cost. The currency in which the consolidated financial statements are denominated is the euro.

On 02 March 2017, these consolidated financial statements were approved by the Supervisory Board for publication.

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

Consolidation principles
The consolidated financial statements include the financial data of Neways Electronics International N.V. and its subsidiaries as at 31 December. These data are presented in accordance with the full consolidation method, based on uniform accounting principles. Adjustments are made to match any differences in valuation principles to those of the parent company. As a result, the financial data of the Group companies are wholly included in the consolidation. Upon consolidation, all assets, liabilities, capital, income, expense and cash flows resulting from transactions with the Group are eliminated in their entirety. Subsidiaries are defined as those businesses in which Neways Electronics International N.V. exercises effective control. The moment at which effective control is acquired is also the moment at which a new subsidiary is included in the consolidation. Consolidation is continued until such a time as the effective control ceases. Changes in ownership interests in subsidiaries that do not lead to loss of control are presented in the accounts as equity transactions. If and when the Group no longer exercises meaningful control, fair value is used for measuring the remaining investment.
The companies included in the consolidation are listed in item 23 of the Notes.

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

2.2. New standards

The accounting principles applied are consistent with those applied to the previous financial year. The initial application of new and amended IFRS standards and IFRIC interpretations which entered into force on 01 January 2016 did not impact the Group's financial position or income. The changes concern the following standards and interpretations.

New or amended standard	
EU-IFRS 11	
IAS 16 and IAS 38	- Clarification of acceptable methods of depreciation and amortisation
IAS 41	- Agriculture - "Bearer plants"
IAS 27	- Equity method in separate financial statements
EU-IFRS 10, EU-IFRS 12 and IAS 28	- Investment entities: applying the consolidation exception
IAS 1	- Part of the "Disclosure Initiative Project"

Annual improvements to IFRS, 2012-2014 cycle – various standards

2.3. Summary of important accounting principles

Operating segments

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

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

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

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

Of the total revenue of €393.2 million in 2016, revenue from one customer came to €52.0 million (2015: €48.4 million), while revenue from another customer was €23.8 million (2015: €25.2 million). See the Report of the Board of Directors, included in the annual report, for a breakdown of revenue across the separate market sectors.

Consolidated cash flow statement

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

Business combinations and goodwill

Business combinations are presented according to the acquisition method, which involves presenting the identifiable assets and the obligations and contingent liabilities assumed at fair value, including those not previously presented by the party acquired. Costs (with the exception of costs of financing) relating to the acquisition are taken directly to the income statement. Costs of financing for taking out loans to finance the acquisition are taken to the balance sheet and amortised over the duration of the loan. If the business combination is realised in separate phases, the fair value of the interest held by the surviving party in the party acquired will be recalculated as at the acquisition date and changes in value will be taken to the income statement.

Goodwill arising from a business combination is stated at the purchase price upon first inclusion, i.e. the difference between the purchase price of the business combination and the Group's interest in the net fair value of the identifiable assets, obligations and contingent liabilities. If the purchase price of a business combination is less than the net fair value of the assets and liabilities acquired, the difference is taken directly to the income statement, as profit on the advantageous purchase as at the acquisition date.

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

Translation of foreign currencies

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

I) Transactions and balance sheet items

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

II) Group companies

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

Financial instruments

Financial assets

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

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

Derecognition of financial assets

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

Impairments of financial assets

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

Financial assets stated at amortised cost

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

Financial liabilities

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

Derecognition of financial liabilities

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

Offset of financial instruments

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

Property, plant and equipment

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

Land and buildings are stated at cost, net of depreciation on buildings and net of any accumulated impairment losses, if applicable. Land is not depreciated. Depreciation is calculated on a straight-line basis, based on the useful life and estimated residual value of the asset in question, as follows:

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

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

Lease contracts

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

The Group as a lessee

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

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

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

Intangible assets (not including goodwill)

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

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

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

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

Impairments of non-financial assets (not including goodwill)

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

Inventories

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

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

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

Cash

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

Provisions

General

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

Provision for warranty costs

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

Provision for restructuring costs

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

Provision for onerous contracts

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

Pensions and other post-employment benefits

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

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

If a pension scheme or early retirement scheme changes or its scope is restricted, the resulting changes in pension costs for past years of service are recognised in the income statement as at the date of the change or restriction.

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

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

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

The costs of equity-settled transactions, together with corresponding increases in equity, are recognised during the period in which the conditions for performances and/or services are met, ending on the date on which the employees in question become fully entitled to the commitment (i.e. the date on which the commitment becomes unconditional). The cumulative costs recognised for equity-settled transactions as at the reporting date reflect the degree to which the waiting period has passed and the Group's best estimate of the number of equity instruments that will eventually become unconditional. The amount charged to the income statement for a particular period reflects the changes to the cumulative expense as recognised at the beginning and the end of that period.
Any equity-settled commitments that are cancelled are regarded as being unconditional as at the cancellation date, and any as-yet unrecognised costs associated with that commitment are recognised immediately. However, if the cancelled commitment is replaced by a new commitment, and if that new commitment qualifies as a replacement commitment as at the date of grant, the cancelled and new commitments are regarded as constituting an amendment to the original commitment, as defined in the previous paragraph.
The dilution effect on outstanding options is made visible as an additional dilution of the shares in the calculation of the diluted earnings per share (please refer to item 22 of the Notes).

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

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

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

Services provided
Revenues from services provided, generally based on contractual agreements with terms of less than 12 months, are recognised based on the performances delivered, using a percentage-of-completion method. The stage of the

performances rendered is determined by calculating the number of man hours worked as a percentage of the total estimated number of man hours required for each contract. Losses are taken when they are foreseeable.
Revenue from services provided represented approximately 5% of the Group's total revenue in the financial year 2016 (2015: approximately 4%).

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

Taxes

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

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

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

Deferred tax liabilities are recognised for all taxable timing differences, except in the following situations:
- If the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, does not affect the pre-tax profit or the taxable result;
- In the case of taxable timing differences pertaining to investments in subsidiaries: if the moment of settlement can be determined wholly independently, and if it is probable that the timing difference will not be settled in the near future.

Deferred tax assets are recognised for all timing differences that can be settled, unused tax facilities and tax losses available for offset, insofar as it is probable that taxable profits will be available against which the timing difference can be offset, and that the timing differences, unused tax facilities and tax losses available for offset can be utilised, except in the following situations:
- If the deferred tax asset arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, does not affect the pre-tax profit or the taxable result;
- In the case of timing differences that can be settled and that pertain to investments in subsidiaries: if it is probable that the timing difference will not be settled in the near future and that taxable profits will be available against which the timing difference can be offset.

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

Deferred tax assets and liabilities are stated at the tax rates that are expected to apply to the period during which the asset will be realised or the liability settled, based on the statutory tax rates and prevailing tax law.

Tax on items recognised directly in equity is taken directly to equity rather than to the income statement.

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

Government grants

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

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

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

Opinions

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

Lease commitments – the Group as the lessee

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

Pensions

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

Estimates and assumptions

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

Fair values of assets and liabilities

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

Property, plant and equipment

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

Impairment losses on goodwill
At least once every year, the Group ascertains whether its goodwill has been subject to any impairment losses. This requires estimating the value in use of the cash-generating units with which the goodwill is associated. To estimate these values in use, the Group must first estimate the expected future cash flows arising in connection with the cash-generating unit, as well as determining an appropriate discount rate, in order to calculate the discounted values of those cash flows. The carrying amount of the goodwill as at 31 December 2016 was €2.8 million (2015: €2.8 million). For further information, please refer to item 6 of the Notes.

Deferred tax assets
Insofar as it is probable that the Group will have taxable profits against which the losses can be offset, deferred tax assets are presented for all tax losses that have not previously been offset. Determining the amount that may be presented as deferred tax assets calls for a considerable degree of management opinion, based on the probable time and volume of future taxable profits, combined with future tax planning measures. The carrying amount of the deferred tax asset for tax losses accounted for as at 31 December 2016 was €5.6 million (2015: €4.5 million), while the tax losses not presented on the face of the balance sheet as at 31 December 2016 totalled €3.7 million (2015: €8.3 million).
For further information, please refer to item 7 of the Notes.

Inventories
The valuation of inventories includes an assessment of the possibility of obsolescence. Estimates are made to this end based on both historical and future revenues. The future revenues are based on estimates of the future inventory turnover rates. As at 31 December 2016, the allowance for write-downs of raw materials and consumables was €10.7 million (2015: €11.5 million).

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

Restructuring provisions
In 2015 the Group decided to reallocate the operating activities of Neways Micro Electronics in Echt and China and reorganise Neways Cable & Wire Solutions in Echt. A €2.2 million restructuring provision was formed for this purpose in December 2015. The costs include €1.6 million for costs of employee redundancy (recognised in employee expenses) and €0.6 million for costs of vacant premises (recognised in other expenses). The restructuring was completed in 2016. For further information, please refer to item 14 of the Notes.

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

Pensions and jubilee provision
The costs of defined benefit pension schemes, early retirement schemes and jubilee provision are calculated according to actuarial methods. The actuarial methods consist of making assumptions about discount rates, future pay rises, mortality rates and future indexation of pension benefits. Such estimates are very uncertain, owing to the long-term nature of the schemes. All assumptions are reviewed each reporting date. The net liability as at 31 December 2016 was €5.3 million (2015: €4.9 million). For further information, please refer to item 15 of the Notes.

4. STANDARDS AND INTERPRETATIONS NOT YET APPLIED

A number of new or amended standards are in effect for financial years commencing after 1 January 2016, with early application being permitted. However, the Group has not opted for early application of the following new or amended standards in preparing its consolidated financial statements.

- Disclosure initiative (amendments to IAS 7)
- Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)
- IFRS 15 Revenue from contracts with customers
- IFRS 9 Financial instruments
- IFRS 16 Lease agreements
- Other changes
  The following new or amended standards are not expected to have a significant impact on the consolidated financial statements of the Group
  - Classification and measurement of share-based payments (amendments to IFRS 2)
  - Sales or contributions of assets between an investor and its subsidiary/joint venture (amendments to IFRS 10 and IAS 28)

The standards and interpretations listed above had been issued on the date of publication of the Group's financial statements, but were not yet in force. As some of these standards have yet to be adopted by the EU, their dates of entry into force are also currently uncertain. The Group is investigating what impact these new standards and interpretations will have on the explanatory notes, the financial position or the results of the Group. The Group will begin to apply these standards and interpretations as soon as they come into force.

5. PROPERTY, PLANT AND EQUIPMENT

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

Amounts x €1,000	Land and buildings	Plant and equipment	Total
Acquisition value:			
Balance as at 01 January 2015	**22,284**	**82,177**	**104,461**
Acquisitions	537	2,660	3,197
Disposals	–366	–4,347	–4,713
Reclassification	1,718	–1,718	0
Exchange differences	0	131	131
Balance as at 31 December 2015	**24,173**	**78,903**	**103,076**
Acquisitions	98	6,105	6,203
Disposals	–68	–1,524	–1,592
Disposed	0	36	36
Exchange differences	0	–34	–34
Balance as at 31 December 2016	**24,203**	**83,486**	**107,689**

Amounts x €1,000	Land and buildings	Plant and equipment	Total
Depreciation and impairments:			
Balance as at 01 January 2015	**7,059**	**59,606**	**66,665**
Depreciation charge for the financial year	697	5,618	6,315
Disposals	–366	–4,338	–4,704
Exchange differences	0	0	0
Balance as at 31 December 2015	**7,390**	**60,886**	**68,276**
Depreciation charge for the financial year	754	5,497	6,251
Disposals	–68	–1,440	–1,508
Disposed	0	421	421
Exchange differences	0	0	0
Balance as at 31 December 2016	**8,076**	**65,364**	**73,440**
Carrying amount:			
As at 31 December 2016	16,127	18,122	34,249
As at 31 December 2015	16,783	18,017	34,800
As at 01 January 2015	15,225	22,571	37,796

The carrying amount of property, plant and equipment does not include assets under construction (31 December 2015: €0.3 million). Property, plant and equipment include leased plant and equipment representing a carrying amount as at 31 December 2016 of €0.5 million (31 December 2015: €0.8 million).
Credit suppliers have established pledges on plant and equipment.

6. INTANGIBLE ASSETS

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

Amounts x €1,000	Software	Goodwill	Customer relationships	Total
Acquisition value:				
Balance as at 01 January 2015	**8,678**	**2,798**	**8,386**	**19,862**
Acquisitions	1,744	0	0	1,744
Balance as at 31 December 2015	**10,422**	**2,798**	**8,386**	**21,606**
Acquisitions	1,363	0	0	1,363
Balance as at 31 December 2016	**11,785**	**2,798**	**8,386**	**22,969**

Amounts x €1,000	Software	Goodwill	Customer relationships	Total
Amortisation and impairments:				
Balance as at 01 January 2015	**3,331**	**44**	**2,206**	**5,581**
Amortisation	647	0	1,304	1,951
Balance as at 31 December 2015	**3,978**	**44**	**3,510**	**7,532**
Amortisation	1,109	0	856	1,965
Balance as at 31 December 2016	**5,087**	**44**	**4,366**	**9,497**
Carrying amount:				
As at 31 December 2016	6,698	2,754	4,020	13,472
As at 31 December 2015	6,444	2,754	4,876	14,074
As at 01 January 2015	5,347	2,754	6,180	14,281

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

The estimated amortisation of customer relationships for the next four years is as follows:
- 2017: €0.8 million
- 2018: €0.8 million
- 2019: €0.7 million
- 2020: €0.5 million

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

The carrying amount of the software as at 31 December 2016 includes a sum of €4.7 million (31 December 2015: €4.3 million) for costs of the Infor-LN project. Amortisation takes place over a period of 10 years and commenced when it was taken into use in the third quarter of 2016. As at the balance sheet date, it was established that the carrying amount of this software has not undergone any impairment.

Impairment testing of goodwill

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

The Group performed the annual impairment test on 31 December 2016 and 2015. As at 31 December 2016, the Group's stock market capitalisation exceeded the carrying amount of its equity.

The recoverable amount of the goodwill is calculated based on the value in use. The calculation of this value uses the future cash flows, based on the financial budgets and forecasts of the cash-generating unit over a period of five years. The discount rate (before tax) used for this purpose is 13.5% (2015: 12.4%). The cash flows beyond the 5-year period have been extrapolated using a growth rate of 2% (2015: 2% (2015: 2%).

Important assumptions in the calculation of the value in use

The calculation of the value in use of the cash-generating unit is most sensitive to the following assumptions:

- Operating results
- Discount rates
- Growth rate used for extrapolating cash flows after the budgeted period.

Operating results

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

Discount rates

Discount rates represent management's current market assessment of the specific risks associated with the cash-generating unit. They constitute the measure that management uses in assessing the operational performances and assumptions for future investments. The discount rate after tax that is used is 11.4% (2015: 11.3%), which is derived from the average rate of the weighted average cost of capital (WACC).

Sensitivity to changes in assumptions

For the assessment of the value in use of the cash-generating unit, management believes that reasonable changes in one or more of the important assumptions as defined above will not cause the carrying amounts of the cash-generating units to materially exceed their recoverable amounts. The value in use is substantially higher than the carrying amount of the cash-generating units. The consequences of the principal assumptions for the recoverable amount are explained below.

- Operating results: An increase in operating results of no more than 2% per year from 2018 forward will not lead to any impairment.
- Discount rates: A discount rate (after tax) of 15% will not lead to any impairment.

Growth rate

Using a 0% growth rate for the operating results will not cause grounds for an impairment.

7. TAXES

Amounts x €1,000	Consolidated statement of financial position		Consolidated income statement		Other comprehensive income	
	2016	2015	2016	2015	2016	2015
Deferred tax assets						
Available from tax losses	5,619	4,460	1,159	0	0	0
Intangible assets	331	0	331	0	0	0
Financial assets	129	0	129	0	0	0
Pensions	555	41	360	36	154	–151
Other valuation differences	205	0	205	0	0	0
Total deferred tax assets	**6,839**	**4,501**	**2,184**	**36**	**154**	**–151**
Deferred tax liabilities						
Intangible assets	–273	–225	–48	–48		
Customer relationships	–1,206	–1,463	257	391		
Property, plant and equipment	–1,070	–1,413	343	314		
Inventories	–265	–134	–131	54		
Other provisions	–258		–258			
Other valuation differences	–229	–87	–142	–31		
Total deferred tax liabilities	**–3,301**	**–3,322**	**21**	**680**	**0**	**0**
Net deferred tax asset	**3,538**	**1,179**	**2,205**	**716**	**154**	**–151**
Presented as follows on the face of the balance sheet:						
Deferred tax assets	4,293	4,501				
Deferred tax liabilities	–755	–3,322				
Net deferred tax asset	**3,538**	**1,179**				

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

Amounts x €1,000	2016	2015
Tax on income for the financial year:		
Current tax charge	–2,692	–1,479
Adjustment of tax charge for previous years	258	–83
Deferred taxes:		
In connection with the emergence and reversal of timing differences	642	565
Recognition of previously unrecognised tax losses	1,819	353
Tax on income presented in the consolidated income statement	**27**	**–644**
Deferred taxes on items presented in other comprehensive income:		
Tax gains/losses on defined benefit schemes	154	–151
Tax on income presented in other comprehensive income	**154**	**–151**

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

Amounts x €1,000	2016	2015
Profit before taxation	**9,667**	**3,864**
Taxes at the applicable Dutch rate of 25.0%	–2,407	–966
Adjustment of tax charge for previous years	259	–83
Non-deductible expenses	–144	–51
Innovation box benefit	110	103
Effect of other tax rates at non-Dutch subsidiaries	–62	69
Losses of current financial year for which no deferred tax asset has been recognised	–190	–69
Recognition of previously unrecognised timing differences available for set-off	642	0
Recognition of previously unrecognised tax losses	1,819	353
Tax on income presented in the consolidated income statement	**27**	**–644**

The Group recognises deferred tax assets totalling €5.6 million (31 December 2015: €4.5 million), which pertain in their entirety to tax-loss carry-forwards representing total available losses of €18.7 million (31 December 2015: €15.0 million). The entire €18.7 million asset pertains to losses offsettable in Germany. The measurement of the available losses is based on an estimate of the projected profits to be realised over the coming four years. No tax asset is recognised on the face of the balance sheet for the remaining available loss of €3.7 million (31 December 2015: €8.3 million), as its realisation is not yet probable. These available losses in Germany, generated by Neways Deutschland GmbH, can be carried forward indefinitely.

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

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

The effective tax rate, i.e. the ratio between taxes and profit before corporate income tax, was 18.5% (2015: 25.8%), without taking into account the recognition of previously unrecognised tax losses amounting to €1.8 million at the German subsidiaries. This effective tax rate differs from the corporate income tax rate of 25% prevailing in the Netherlands in 2016 owing to a lower effective tax rate at the German subsidiaries due to the recognition of previously unrecognised timing differences available for set-off, an adjustment of the tax expenses for prior years and the application of the innovation box in the Netherlands. An arrangement was made with the tax authorities during the 2013 financial year to the effect that part of the development costs qualifies for application of the innovation box facility for the period from 2010 until year-end 2016. The Group's areas of activity are the Netherlands, Germany, Slovakia, the Czech Republic and China, where the tax rates for 2016 are as follows: 25% (Netherlands), 30% (Germany), 22% (Slovakia), 19% (Czech Republic) and 25% (China).

8. INVENTORIES

The allowance recognised for write-downs of raw materials and consumables is €10.7 million (2015: €11.5 million).
The net movement in the allowance was -/- €0.8 million.
The allowance pertains primarily to materials intended for products that are no longer produced and supplied, but that are kept in stock and used occasionally. The Group does not possess any inventories that are stated at the lower net recoverable value.
Credit suppliers have established pledges on the inventories.

9. TRADE AND OTHER RECEIVABLES

Amounts x €1,000	2016	2015
Trade and other receivables	46,291	37,762
Affiliated parties	2,179	2,111
Total	**48,470**	**39,873**

For the conditions that apply to receivables from affiliated parties, please refer to item 23 of the Notes.

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

As at 31 December 2016, trade receivables with a nominal value of €0.9 million (2015: €0.8 million) had been impaired, and an allowance was made for the entire amount. Allowances for receivables are determined individually.

The movements in the allowance for impairments of receivables are as follows (for more information about the credit risk, see item 25 of the Notes):

Amounts x €1,000	2016	2015
Balance as at 1 January	**809**	**1,067**
Charges for the financial year	397	58
Write-downs	–45	–238
Reversals for unused amounts	–269	–78
Balance as at 31 December	**892**	**809**

The analysis of overdue receivables not subject to impairment as at 31 December can be summarised as follows:

			Overdue but not subject to impairment				
Amounts x €1,000	Total	Not overdue, nor subject to impairment	< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
2016	48,470	43,760	3,243	832	330	185	120
2015	39,873	35,273	2,621	629	463	219	668

10. CASH AND CASH EQUIVALENTS

Cash consists of bank balances and cash. As at 31 December 2016, the bank balances include a sum of €346,120 (31 December 2015: €818,000) of which the Group may not freely dispose owing to government restrictions in China.

11. EQUITY

For a summary of the various equity components and the movements in those components between 31 December 2015 and 31 December 2016, please refer to the consolidated statement of changes in equity.

Capital

The authorised capital as at 31 December 2016 was €15,000,000, divided into 30,000,000 ordinary shares with a nominal value of €0.50 each. Of that number, 11,458,801 ordinary shares had been issued and paid in as at 31 December 2016, bringing the paid-in capital to €5,729,401. The movements in the increase in the number of issued and paid-in ordinary shares during the 2015 and 2016 financial years can be broken down as follows:

Numbers x 1,000	Notes	Ordinary shares issued and paid in
01 January 2015		**10,986**
Issued in exchange for cash payment upon exercise of share options	16	90
Issued as a result of stock dividends		325
31 December 2015		**11,401**
Issued in exchange for cash payment upon exercise of share options	16	58
31 December 2016		**11,459**

Convertible bonds

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

Foreign exchange reserve

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

12. DIVIDENDS PAID AND PROPOSED

Amounts x €1,000	2016	2015
Declared and paid during the year		
Dividend on ordinary shares:		
Final dividend for 2015: €0.11 (2014: €0,25)	1,254	2,746
Proposed for the approval of the General Meeting of Shareholders		
Dividend on ordinary shares:		
Final dividend for 2016: €0.34 (2015: €0,11)	3,896	1,254

13. OTHER FINANCIAL LIABILITIES

Amounts x €1,000	Effective interest rate	Maturity date	Outstanding amount 2016	Outstanding amount 2015
Current				
Money loans	5.0%	2 Jan. 2017	10	134
Financial lease	3.4% - 3.6%	2017	165	160
Bank overdrafts	Euribor + (1.4% - 2.3%)	On demand	19,890	10,779
Other current borrowings				
Bank loans	Euribor + (1.5% - 2.4%)	26 Sep. 2017	4,974	5,000
Bank loans	4.2%	2017	800	1,800
Employee loans	6.0% - 8.0%	30 Apr. 2016	0	1,064
Purchase price yet payable	2.5%	29 Nov. 2016	0	3,000
Total current interest-bearing borrowings			**25,839**	**21,937**
Long-term				
Money loans	5.0%	2016	0	8
Financial lease	3.4% - 3.6%	2019	218	384
Other long-term borrowings				
Bank loans	Euribor + (1.5% - 2.4%)	26 Sep. 2017	0	4,860
Bank loans	4.2%	31 Mar. 2018	200	1,000
Convertible subordinated loans	4.6%	30 Sep. 2019	4,924	4,899
Total long-term interest-bearing borrowings			**5,342**	**11,151**

Money loans (5.0%)

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

Financial lease (3.4%-3.6%)

These comprise loans with terms of 4 years. They are repaid in monthly instalments, based on the annuity method.

Bank overdrafts

The credit facilities available as at 31 December 2016 (overdraft and committed facilities) total €52.5 million (interest rate: Euribor + 1.4%-2.3%, depending on the net debt/EBITDA ratio).
As at the balance sheet date, €20.6 million of the credit facility was in use for overdrafts and bank guarantees (31 December 2015: €12.4 million). Redemption of the debts to the financial institutions is secured by means of a pledge established on business equipment, inventories, receivables and entitlements under the credit insurance policy. The total value of the pledge as at 31 December 2016 was approximately €146 million. All Dutch and German Group companies have issued statements of joint and several liability to the financial institutions on the Company's behalf. The financial institutions further consider it necessary for the guaranteed capital (adjusted for the net deferred tax assets and intangible assets) to equal at least €50 million as at 31 December 2016 and for the EBITDA to be no lower than €10 million. Further details about the bank covenants with financial institutions are provided in item 25 of the Notes.

Bank loans (Euribor + 1.5%-2.4%)

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

Bank loans (4.2%)

This is a bank loan with a maturity date of 31 March 2018, which is repaid in instalments of €0.2 million per quarter.

Employee loans (6%-8%)

Until the date of the takeover the BuS Group took out loans from employees with varying terms to maturity. No further loans were taken out following the acquisition by the Group. The last loans were repaid on 30 April 2016.

Purchase price yet payable (2.5%)

This item comprises a deferred portion of the purchase price agreed when the BuS Group was acquired, to the amount of €3 million. It was paid on 29 November 2016.

Convertible subordinated loans (4.6%)

The convertible subordinated loans taken out in 2014, with a nominal value of €5 million, carry a conversion rate of €8.50 per share and a conversion right that may be exercised between 30 September 2017 and 30 September 2019. The nominal interest rate is 4%. Repayments on the principal sums of these borrowings are subordinated in respect of all other existing and future debts to third parties. As at 31 December 2016, a sum of €0.1 million is recognised as a call option in equity, under share premium.

Fair values

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

Hierarchy of fair values

The Group uses the following hierarchy for determining and disclosing financial instruments, distinguished by method of measurement.

Level 1: quoted (unadjusted) prices on active markets for identical assets or liabilities

Level 2: other methods in which all variables have a significant impact on the fair value recognised and are directly or indirectly observable

Level 3: methods in which all variables are used that have a significant impact on the fair values recognised but are not based on observable market data.

For the 2015 and 2016 financial years, the Group did not use any financial instruments that are measured at fair value.

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

14. PROVISIONS

The movements in the item for provisions during 2016 can be summarised as follows:

Amounts x €1,000	Warranty provision	Restructuring provision	Onerous contracts	Total
Balance as at 01 January 2016	**827**	**2,149**	**0**	**2,976**
Addition for the period	118	46	321	485
Utilised	–110	–1,890	0	–2,000
Released	0	–259	0	–259
Balance as at 31 December 2016	**835**	**46**	**321**	**1,202**
Current	257	46	321	624
Long-term	578	0	0	578

Warranty provision
The provision for warranties covers repairs for products that are returned by buyers. The estimated amount and duration of the provision are based on the warranty dates for the years 2011 to 2016.

Restructuring provisions
In Q4 of 2015 the Group decided to reallocate the operating activities of Neways Micro Electronics in China and reorganise Neways Micro Electronics and Neways Cable & Wire Solutions in Echt. A €2.2 million restructuring provision was formed for this purpose in December 2015. The costs include €1.6 million for costs of employee redundancy (recognised in employee expenses, see item 18 of the Notes) and €0.6 million for costs of vacant premises (recognised in other expenses, see item 20 of the Notes). The restructuring was completed in 2016.

Onerous contracts
The provision for onerous contracts relates to the expected losses on an ongoing development project.

15. PENSIONS, EARLY RETIREMENT AND JUBILEES

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

The pension schemes for the employees in the Netherlands are insured with two industry pension funds. These collective schemes, which are based on what is commonly known as the career-average system, are administered with the schemes of other legal entities and are managed by Bedrijfstakpensioenfonds Metalektro and by Pensioenfonds Metaal en Techniek. The associated businesses are not obliged to make good any deficits in the pension funds, nor are they entitled to any surpluses. As such, these pension schemes qualify as contribution schemes in the financial statements. At year-end 2016, the coverage ratio of the Bedrijfstakpensioenfonds Metalektro was 96.2% (2015: 96.4%) while that of Pensioenfonds Metaal en Techniek was 97.2% (2015: 97.4%). The coverage ratios of both funds fall short of the coverage ratios required according to the recovery plans. The pension funds have approved recovery plans in place, under which the coverage ratios will be restored to the required levels by various measures, such as refraining from future indexation of pensions, lowering pensions and increasing pension contributions, and for which no additional contributions are required from the enterprise at present.

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

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

Early retirement schemes

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

Provision for jubilee commitments

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

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

Amounts x €1,000	Pension provisions		Early retirement provisions		Provision for jubilee commitments		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Balance as at 1 January	**3,976**	**4,614**	**166**	**192**	**772**	**574**	**4,914**	**5,380**
New subsidiaries	0	0	0	0	0	0	0	0
Expenses allocated to the financial year	22	28	0	–26	214	263	236	265
Interest expense	92	88	0	0	0	0	92	88
Realised actuarial (gains)/losses	0	0	0	0	0	0	0	0
Past-service costs	0	0	0	0	0	0	0	0
Benefits paid	–171	–166	–97	0	–80	–65	–348	–231
Employer contributions	–85	–85	0	0	0	0	–85	–85
Total	**–142**	**–135**	**–97**	**–26**	**134**	**198**	**–105**	**37**
Revaluation gains/losses presented in other comprehensive income:								
Adjustments stemming from changes to financial assumptions	609	–416	0	0	0	0	609	–416
Experience adjustments	–96	–87	0	0	0	0	–96	–87
Demographic adjustments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**513**	**–503**	**0**	**0**	**0**	**0**	**513**	**–503**
Balance as at 31 December	**4,347**	**3,976**	**69**	**166**	**906**	**772**	**5,322**	**4,914**

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

Amounts x €1,000	Pension provisions		Early retirement provisions		Provision for jubilee commitments		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Expenses taken to the income statement:								
Expenses allocated to the financial year	22	28	0	–26	214	263	236	265
Interest expense	92	88	0	0	0	0	92	88
Realised actuarial (gains)/losses	0	0	0	0	0	0	0	0
Past-service costs	0	0	0	0	0	0	0	0
Subtotal in the income statement	**114**	**116**	**0**	**–26**	**214**	**263**	**328**	**353**
Revaluation gains/losses presented in other comprehensive income:								
Adjustments stemming from changes to financial assumptions	609	–416	0	0	0	0	609	–416
Experience adjustments	–96	–87	0	0	0	0	–96	–87
Demographic adjustments								
Total of pension and jubilee charges	**627**	**–387**	**0**	**–26**	**214**	**263**	**841**	**–150**

The Group expects to contribute €85,000 to the defined benefit schemes in 2017 (2016: €85,000). The average duration of the commitment under the defined benefit schemes as at 31 December 2016 was 12.2 years (2015: 12.0 years).
The adjustments deriving from changes in financial assumptions, totalling €609,000 in 2016, are primarily the result of the decrease in the discount rate from 2.4% in 2015 to 1.5% in 2016.

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

	2016	2015
Discount rate	1.5%	2.4%
Future wage increases	0.0%	0.0%
Future pension increases	1.75%	1.75%
Life expectancy of retired participants (years)	11.8	11.7

Quantitative sensitivity analysis of the important assumptions used in the actuarial calculations for the schemes for the German employees as at 31 December 2016:

	Discount rate		Future wage increases		Future pension increases		Life expectancy of retired participants	
Sensitivity	0,5% increase	0,5% decrease	0,5% increase	0,5% decrease	0,5% increase	0,5% decrease	1 year increase	1 year decrease
Amounts x €1,000								
Impact on the liability	–272	301	0	0	238	–218	259	–252

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

	2016	2015
Discount rate	1.5%	2.4%
Departure rate	25%	25%

Quantitative sensitivity analysis of the important assumptions used in the actuarial calculations for the schemes for the Dutch employees as at 31 December 2016:

	Discount rate		Departure rate	
Sensitivity	0,5% increase	0,5% decrease	5% increase	5% decrease
Amounts x €1,000				
Impact on the liability	–38	40	–60	60

These sensitivity analyses are based on an extrapolation of the effect of reasonable changes to the important assumptions at the end of the reporting year on the liability stemming from the defined benefit scheme and the jubilee commitments.

The 2016 cost for the pension schemes presented as defined contribution plans for the employees in the Netherlands was €3,579,000 (2015: €3,738,000). The payments for 2017 are projected to be approximately the same.

16. SHARE-BASED PAYMENT ARRANGEMENTS

The Neways Group has a share option scheme for the members of the Board of Directors and a select group of other executives who have been in the employ of the Neways Group for at least twelve months before the year of grant. This scheme provides for grants of non-transferable options to shares in Neways. The options may be exercised three years after grant, for a period of two years, which means that their total life is five years. Options can only be exercised by converting them into shares. If an option holder leaves the Group, his option rights lapse.
During the financial year, 72,500 options were granted, with an exercise price of €7.10 per share, exercisable between 12 April 2019 and 12 April 2021. A total of 57,500 options were exercised during the financial year. The fair value of the options granted before 31 December 2015 was €166,059. The weighted average fair value per option was €1.13. Of this amount, €45,093 is recognised as an expense in the income statement (2015: €45,009). The fair value of the options granted during the financial year was €73,877. The fair value per option was €1.02. Of this amount, €17,067 (2015: €12,821) is recognised as an expense in the income statement. The average stock exchange price of Neways shares during 2016 was €7.86 (2015: €8.39).

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

Option holders	Balance as at 31/12/2015	Granted 2016	Lapsed 2016	Exercised 2016[2]	Balance as at 31/12/2016	Exercise price (in €)	Maturity
P.H.J. de Koning	0	15,000			15,000	7.10	04/2021
A.A.H. van Bragt	5,000		–5,000		0		
	5,000			–5,000	0		
	5,000			–5,000	0		
	5,000				5,000	7.05	04/2019
	15,000				15,000	9.79	04/2020
		15,000			15,000	7.10	04/2021
H.W.T. van der Vrande	125,000[1]				125,000	6.00	12/2019
	15,000		–15,000		0		
	15,000			–15,000	0		
	15,000			–15,000	0		
	15,000				15,000	7.05	04/2019
	15,000				15,000	9.79	04/2020
		15,000			15,000	7.10	04/2021
Other officers in the Group's employ	12,500		–12,500		0		
	5,000			–5,000	0		
	15,000			–12,500	2,500	4.09	04/2018
	15,000				15,000	7.05	04/2019
	15,000				15,000	9.79	04/2020
		27,500	–5,000		22,500	7.10	04/2021
Total	**297,500**	**72,500**	**–37,500**	**–57,500**	**275,000**		

1) Options on shares held by major shareholders.
2) The weighted average price on the exercise dates of these options was €8.44.

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

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

	2016	2015
Dividend yield (%)	2.09	3.58
Expected price-sensitivity of the share (%)	31.53	32.64
Risk-free interest rate (%)	0.00	0.13
Expected life of the options (in years)	3.50	3.50
Expected exercise behaviour of the options (%)	73.00	73.00

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

17. TRADE AND OTHER PAYABLES

Amounts x €1,000	2016	2015
Trade payables	46,047	39,712
Other payables	16,398	14,931
Interest payable	83	109
Affiliated parties	737	688
Total	**63,264**	**55,440**

The conditions for these financial obligations are as follows:

- Trade payables are not subject to interest, and generally have payment periods of approximately 60 days.
- Other payables are not subject to interest and have an average payment period of 6 months.
- The interest payable is generally settled on a quarterly basis during the financial year.
- For the conditions for affiliated parties, please refer to item 23 of the Notes.
- For an explanation of the credit risk policy adopted by the Group, please refer to item 25 of the Notes.

18. EMPLOYEE EXPENSES

Amounts x €1,000	Notes	2016	2015
Wages and salaries		90,916	85,737
Pension charges		4,326	4,867
Other social expenses		12,593	11,768
Costs of share option schemes	16	62	58
Provision for restructuring costs at NCWS (Echt)	14	0	1,082
Provision for restructuring costs at NME (Echt/China)	14	0	517
Total employee expenses		**107,897**	**104,029**

The Group had an average of 2,565 employees during 2016 (2015: 2,593). This number also includes temporary workers. Of the total workforce, an average of 1,624 employees worked for non-Dutch subsidiaries (2015: 1,689). The breakdown by groups was as follows:

Average numbers in FTEs	2016	2015
General administration	369	357
Engineering and development	413	413
Logistics	216	223
Production	1,389	1,417
Warehouse	178	183
Total	**2,565**	**2,593**

19. DEPRECIATION AND AMORTISATION

Amounts x €1,000	2016	2015
Depreciation on property, plant and equipment	6,251	6,315
Amortisation on intangible assets	1,965	1,951
Total depreciation and amortisation	**8,216**	**8,266**

20. OTHER EXPENSES

In 2015 this item includes €0.6 million for costs relating to the reallocation of production activities at the sites in Echt and Wuxi (China).

21. FINANCE COSTS

Amounts x €1,000	2016	2015
Interest on loans and bank overdrafts	1,347	1,559
Net foreign exchange differences	239	20
Other	527	482
Total finance costs	**2,113**	**2,061**

22. EARNINGS PER SHARE

Ordinary earnings per share

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

Diluted earnings per share

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

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

Numbers x 1,000	2016	2015
Net income accruing to shareholders of ordinary shares for purposes of calculating the diluted earnings per share	**9,694**	**3,220**
Interest expense on convertible subordinated loans	0	0
Net income accruing to shareholders of ordinary shares for purposes, adjusted for dilution effect	**9,694**	**3,220**

Numbers x 1,000	2016	2015
Weighted average number of ordinary shares	11,419	11,378
Dilution effect:		
Share options	101	89
Conversion value of subordinated loans	0	0
Adjusted weighted average number of ordinary shares for purposes of calculating the diluted earnings per share	**11,520**	**11,467**

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

23. INFORMATION ABOUT AFFILIATED PARTIES

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

		Interest (%)	
	Domicile/country	2016	2015
Neways B.V.	Son, the Netherlands	100	100
Neways Industrial Systems B.V.	Son, the Netherlands	100	100
Neways Technologies B.V.	Son, the Netherlands	100	100
Neways Cable & Wire Solutions B.V.	Echt, the Netherlands	100	100
Neways Leeuwarden B.V.	Leeuwarden, the Netherlands	100	100
Neways Advanced Applications B.V.	Son, the Netherlands	100	100
Neways Micro Electronics Holding B.V.	Echt, the Netherlands	100	100
Neways Micro Electronics B.V.	Echt, the Netherlands	100	100
Hymec Facilities B.V.	Echt, the Netherlands	100	100
Hymec Hybrid Circuits B.V.	Echt, the Netherlands	100	100
Neways Deutschland GmbH.	Kassel, Germany	100	100
Neways Neunkirchen GmbH.	Neunkirchen, Germany	100	100
Neways Vertriebs GmbH.	Kassel, Germany	100	100
Neways Slovakia a.s.	Nová Dubnica, Slovakia	100	100
Neways Wuxi Electronics Co. Ltd. Ltd.	Wuxi, China	100	100
Neways Electronics Singapore Pte. Ltd. Ltd.	Singapore	100	100
BuS Holding GmbH.	Riesa, Germany	100	100
BuS Elektronik GmbH. & Co. KG	Riesa, Germany	100	100
BuS Decin s.r.o.	Decin, Czech Republic	100	100
Neways Vertriebs GmbH. Erfurt	Erfurt, Germany	100	100

The interest in Neways Micro Electronics Wuxi Co. Ltd. was sold in 2015. The name Software & Systeme Erfurt GmbH was changed to Neways Technologies GmbH Erfurt in 2015.

The Group holds minority interests in the following entities:

		Interest (%)	
	Domicile/country	2016	2015
Qualifizierungszentrum Region Riesa GmbH.	Riesa, Germany	5.26	5.26

The interest in Demuskopia Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG was sold in 2015.

The following table shows the total amounts involved in transactions with affiliated parties during the respective financial years (for information about the outstanding balances as at 31 December 2016 and 2015, please refer to items 9 and 17 of the Notes):

Amounts x €1,000		Sales to	Purchases/ services from	Payable by	Payable to
Entity with meaningful influence over the Group:					
VDL Group	2016	12,113	1,361	2,179	737
VDL Group	2015	10,405	3,005	2,111	688
key executives of the Group:	2016		320		
	2015		315		

Entity with meaningful influence over the Group
VDL Group: As of 31 December 2015, VDL Beleggingen B.V. owned 26.1% of the issued shares in Neways Electronics International N.V. (31 December 2015: 26.2%).

Conditions governing transactions with affiliated parties
Transactions with affiliated parties are conducted based on the same conditions as apply between independent parties. Amounts outstanding at year-end are not secured by arm's length collateral, are not subject to interest and are settled in cash. Guarantees are neither provided nor demanded for the receivables from and payables to the affiliated parties. At year-end 2016, the Group had made no allowances for bad debts in connection with the receivables from affiliated parties (2015: zero). This situation is assessed every financial year, based on an examination of the financial position of each affiliated party and of the market on which it operates.

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

Remuneration of the Board of Directors
The remuneration of the Board of Directors consists of a basic salary, an annual bonus and employee share options. The Supervisory Board determines the remuneration annually, within the framework permitted by the Group's remuneration policy. The basic salaries are not subject to any automatic pay rises under a collective bargaining agreement. Every year, the Supervisory Board determines a bonus arrangement for the reporting year. The bonus arrangement is contingent upon the realisation of a series of predetermined quantitative performance targets. The bonuses awarded are recognised during the reporting year, based on the realisation of the performance targets during the financial year, and are paid after the financial statements have been adopted.

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

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

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

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

2015	Basic salary	Pension charges	Social security charges	Bonuses	Share options	Other	Total
V.B.M. de Bok (until 30 June 2015)	140	37	4	0	0	11	192
H.W.T. van der Vrande	261	55	9	109	19	34	487
A.A.H. van Bragt	257	22	9	109	19	15	431
P.H.J. de Koning (from 1 April 2015)	186	12	7	82	0	13	300
Total remuneration of the Board of Directors	**844**	**126**	**29**	**300**	**38**	**73**	**1,410**
Other key executives	**1,862**	**277**	**158**	**350**	**19**	**186**	**2,852**

During the financial year, the employee expenses included €290,000 (2015: €245,000) for termination benefits for other key executives.

Remuneration of the Supervisory Board

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

Amounts x €1,000	2016	2015
H. Scheepers (chairman from 16 April 2015)	40	37
R. Penning de Vries	30	30
P. van Bommel (from 1 April 2015)	30	23
D. Boers (until 16 April 2015)	0	12
Total	**100**	**102**

24. CONTINGENT ASSETS AND LIABILITIES

Rental agreements

The Group has concluded rental agreements for the majority of buildings that it uses. The average term of those rental arrangements is 10-15 years; the contracts do not specify the possibility for renewal. The future minimum rental sums stemming from these non-terminable rental agreements as at 31 December can be summarised as follows:

Amounts x €1,000	2016	2015
Within 12 months	5,260	3,511
Beyond 12 months, but within 5 years	18,658	11,991
Beyond 5 years	25,123	13,954
Total	**49,041**	**29,456**

In 2016 the total expense arising from these rental agreements was €3,900,000 (2015: €3,813,000).

Other operational lease agreements

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

Amounts x €1,000	2016	2015
Within 12 months	723	831
Beyond 12 months, but within 5 years	812	965
Total	**1,535**	**1,796**

In 2016, the total expense arising from these operational lease agreements was €1,264,000 (2015: €1,240,000).

Claims

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

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Market risk

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

The calculations for the sensitivity analyses are based on the following assumptions:
- The sensitivity of equity relates to the impact of the assumed changes in the US dollar exchange rate on the subsidiaries in China.
- The sensitivity of the income statement consists of the impact of the assumed changes in the relevant market risks, based on the financial assets and financial liabilities as at 31 December 2016 and 2015.

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

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

	Rise/fall in basis points	Impact on the profit before tax (x €1,000)
2016	+15	–77
	–10	52
2015	+15	–63
	–10	42

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

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

	Change in the USD exchange rate	Impact on results before tax (x €1,000)	Impact on equity (x €1,000)
2016	+10%	785	–190
	–10%	–863	209
2015	+10%	653	–268
	–10%	–718	294

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

Liquidity risk

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

The table below shows the maturity dates of the Group's financial obligations as at 31 December 2016, based on contractual, nominal payments.

As at 31 December 2016

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

As at 31 December 2015

Amounts x €1,000	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing borrowings and bank overdrafts	10,779	1,843	9,891	12,122	0	34,635
Trade and other payables	0	50,283	5,089	68	0	55,440
Total	**10,779**	**52,126**	**14,980**	**12,190**	**0**	**90,075**

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

Credit risk

The Group's policy is to subject all customers that wish to negotiate based on credit terms to credit verification procedures. All outstanding amounts are also continually monitored, to ensure that the Group does not incur any great risks from bad and doubtful debts. The Group also has credit insurance for a large portion of the debt portfolio.
The maximum credit risk incurred is the carrying amount shown in item 9 of the Notes. More than 60% of the balance of outstanding trade receivables is concentrated among fourteen of the Group's customers. Since, however, guarantees have been provided for the majority of those receivables, management believes that no extraordinary risks are present. In addition, no payment problems have occurred with those customers in the recent past.

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

Capital management

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

The Group manages its capital structure and alters it in response to changes in the economic climate.
To maintain or adjust its capital structure, the Group can adjust its dividend payments to shareholders, repay capital to shareholders or issue new shares.
The objectives, policies and processes did not undergo any changes during the 2016 and 2015 financial years.

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

Bank covenants

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

Under this agreement the available credit facility (overdraft and committed) was increased from €35 million to €52.5 million (interest rate: 1-month Euribor 1.4% to 2.3%, depending on the net debt/EBITDA ratio). Also, the interest payable on the bank loans has been changed to: 1-month Euribor 1.5%-2.4%, depending on the net debt/EBITDA ratio.

The adjusted guaranteed capital as at 31 December 2016 was €66.1 million. The Group applies strict working capital management in order to improve solvency. In addition, if and as long as the adjusted guaranteed capital falls short of the conditions for the minimum adjusted guaranteed capital, no profit may be distributed in any form whatsoever. In addition, the financial institutions consider it necessary for the LTM EBITDA to be at least €10 million. As at 31 December 2016, LTM EBITDA was €20 million. The calculation of the EBITDA does not take into account the restructuring costs of €2.7 million. Failure to satisfy the minimum adjusted guaranteed capital and/or the LTM EBITDA required will cause the loans provided to fall due immediately. As at 31 December 2016, the Group complies with all covenants set by the financial institutions of the loan agreement amended in 2016. Combined with realisation of a profit in 2017, the Group expects to be compliant throughout 2017 with the conditions imposed by the financial institutions for the adjusted guaranteed capital.

Amounts x €1,000 as at 31 December	2016	2015
Equity attributable to the parent company	78,939	70,554
Convertible subordinated loans	4,924	4,899
Less: Software	–6,698	–6,444
Goodwill	–2,754	–2,754
Customer relationships	–4,020	–4,876
Deferred tax assets	–4,293	–4,501
Adjusted guaranteed capital	**66,098**	**56,878**
Balance sheet total	188,088	177,082
Less: Software	–6,698	–6,444
Goodwill	–2,754	–2,754
Customer relationships	–4,020	–4,876
Deferred tax assets	–4,293	–4,501
Adjusted balance sheet total	**170,323**	**158,507**
Solvency	38.8%	35.9%

Amounts x €1,000	2016		2015
Operating results	11,780	Operating results (excl. restructuring costs)	8,603
Depreciation and amortisation	8,216	Depreciation and amortisation	8,266
EBITDA	**19,996**	**EBITDA**	**16,869**

Company balance sheet (before profit appropriation)

Assets x €1,000 as at 31 December	Notes	2016	2015
Fixed assets			
Intangible assets	2	**734**	**734**
Financial assets			
Investments in Group companies	3	62,456	53,702
Receivables from Group companies	3	39,054	38,906
		101,510	**92,608**
Current assets			
Receivables			
Receivables from Group companies		10,698	8,602
Corporate income tax		0	628
Other receivables		25	0
		10,723	**9,230**
Cash		**0**	**0**
Total assets		**112,967**	**102,572**

Equity and liabilities x €1,000 as at 31 December	Notes	2016	2015
Equity	4		
Issued and paid-in capital		5,730	5,701
Share premium		39,989	39,693
Retained earnings		17,938	15,738
Profit for the financial year		9,694	3,220
Reserve for currency translation differences		896	917
Other statutory reserves		4,692	5,285
		78,939	**70,554**
Long-term liabilities			
Interest-bearing borrowings	5	4,924	9,759
Deferred tax liabilities		529	694
		5,453	**10,453**
Current liabilities			
Bank overdrafts	6	23,080	16,319
Interest-bearing borrowings	5	4,974	5,000
Corporate income tax		321	0
Other payables		200	246
		28,575	**21,565**
Total equity and liabilities		**112,967**	**102,572**

Company income statement

Amounts x €1,000	Notes	2016	2015
Operating results		0	0
Employee expenses		–194	–166
Other expenses		–158	–57
Operating results		**–352**	**–223**
Financing income		976	815
Financing expenses		–396	–402
Net financing expenses		**580**	**413**
Share of result from participating interests	7	9,190	3,001
Profit before taxation		**9,418**	**3,191**
Income tax		276	29
Net profit		**9,694**	**3,220**

Notes to the company financial statements

1. GENERAL

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

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

An allocation error was identified within equity in the 2015 financial statements, after they had been adopted. This led to the recognition of a statutory reserve for capitalised development costs at a subsidiary of €5.3 million as at 31 December 2015, which was charged to the reserve for retained earnings. This had no impact on total equity.

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

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

Subsidiaries on which the Company has no meaningful influence are stated at the lower of acquisition price or recoverable amount. Where the Company has positive disposal plans, the subsidiary is stated at the projected sale value if lower.

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

The company has no employees.

2. INTANGIBLE ASSETS

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

3. FINANCIAL ASSETS

Investments in Group companies

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

Amounts x €1,000	2016	2015
Balance as at 1 January	**53,702**	**50,148**
Movements		
Income from subsidiaries after tax	9,190	3,001
Other comprehensive income from subsidiaries after tax	–359	352
Exchange gains and losses	–77	201
	8,754	3,554
Balance as at 31 December	**62,456**	**53,702**

See item 23 of the Notes to the consolidated financial statements for the list of the Company's capital interests.

Receivables from Group companies

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

Amounts x €1,000	2016	2015
Balance as at 1 January	**38,906**	**38,695**
Movements		
Acquisitions	96	85
Exchange gains and losses	52	126
	148	211
Balance as at 31 December	**39,054**	**38,906**

Amounts x €1,000	Interest rate	Outstanding amount 2016	Outstanding amount 2015
Loan to Neways Deutschland GmbH.	2%	36,467	36,467
Loan to Neways Wuxi Electronics Co. Ltd.	5%	2,587	2,439
Total		**39,054**	**38,906**

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

4. EQUITY

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

5. INTEREST-BEARING BORROWINGS

Amounts x €1,000	Effective interest rate	Maturity date	Outstanding amount 2016	Outstanding amount 2015
Current				
Bank loans	Euribor + (1.5% – 2.4%)	26 Sep. 2017	4,974	5,000
Long-term				
Bank loans	Euribor + (1.5% – 2.4%)	26 Sep. 2017	0	4,860
Convertible subordinated loans	4.6%	30 Sep. 2019	4,924	4,899
Total long-term interest-bearing borrowings			**4,924**	**9,759**

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

6. BANK OVERDRAFTS

The credit facilities available as at 31 December 2016 (overdraft and committed facilities) total €52.5 million (interest rate: Euribor + 1.4%-2.3%, depending on the net debt/EBITDA ratio).
As at the balance sheet date, €20.6 million of the credit facility was in use for overdrafts and bank guarantees (31 December 2015: €12.4 million). Redemption of the debts to the financial institutions is secured by means of a pledge established on business equipment, inventories, receivables and entitlements under the credit insurance policy. The total value of the pledge as at 31 December 2016 was approximately €146 million. All Dutch and German Group companies have issued statements of joint and several liability to the financial institutions on the Company's behalf. The financial institutions further consider it necessary for the guaranteed capital (adjusted for net deferred tax assets and intangible assets) to equal at least €50 million as at 31 December 2016 and for the EBITDA to be no lower than €10 million. Further details about the bank covenants with financial institutions are provided in item 25 of the Notes.

7. INCOME FROM SUBSIDIARIES

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

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

For information about the remuneration of the Board of Directors and the Supervisory Board, please refer to item 23 of the Notes to the consolidated financial statements.

9. AUDITOR'S FEES

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

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

Amounts x €1,000	KPMG Accountants N.V. 2015	Other KPMG Network 2015	Total KPMG 2015
Financial statement audit	185	0	185
Other audit engagements	0	0	0
Tax advisory services	0	0	0
Other non-audit services	0	0	0

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

10. FINANCIAL INSTRUMENTS

Interest rate risk

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

For the other risks please refer to item 25 of the notes to the consolidated financial statements.

11. LIABILITIES NOT INCLUDED ON THE FACE OF THE BALANCE SHEET

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

The Company has declared itself liable, pursuant to Section 403, Book 2 of the Netherlands Civil Code, for debts arising from the juristic acts of the Dutch Group companies.
The Company has also agreed to provide financial support to its German subsidiary Neways Deutschland GmbH., if that subsidiary's debts threaten to become excessive. This support will take the shape of interest-bearing loans, structured in such a manner that the subsidiary can meet its payment obligations at all times. If such a loan is issued, it will be subordinated in respect of all receivables of the subsidiary's current and future creditors. This support was not invoked during the financial year.

The Group has issued bank guarantees to the amount of €1.4 million (2015: €2.3 million) in connection with credit provided by non-Dutch banks.

Son, 2 March 2017

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the accompanying financial statements 2016

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Neways Electronics International N.V. as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code;
- the accompanying company financial statements give a true and fair view of the financial position of Neways Electronics International N.V. as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the financial statements 2016 of Neways Electronics International N.V. (the Company), based in Son. The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

1. the consolidated statement of financial position as at 31 December 2016;
2. the following consolidated statements for 2016: the income statement, the statements of other comprehensive income, changes in equity and cash flows; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. the company balance sheet as at 31 December 2016;
2. the company profit and loss account for 2016; and
3. the notes comprising the accounting policies and other explanatory information.

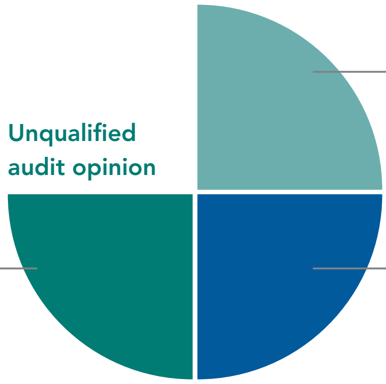
Basis for our opinion

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

We are independent of Neways Electronics International N.V. in accordance with the 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.

Audit approach
Summary



Materiality
- Overall materiality of EUR 500.000
- 5% of profit before tax

Key audit matters
- Deferred tax assets
- General IT controls
- Revenue recognition

Audit scope
- Coverage of 84% of revenue
- Coverage of 80% of total assets
- Coverage of 90% of total equity and liabilities

Materiality
Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 500.000 (2015: EUR 400.000). The materiality is determined with reference to profit before tax (5%). We consider profit before tax as the most appropriate benchmark as the key stakeholders are primarily focussed on profit before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

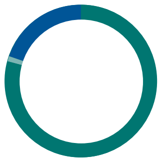
We agreed with the Supervisory Board that misstatements in excess of EUR 25.000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit
Neways Electronics International N.V. is head of a group of entities. The financial information of this group is included in the financial statements of Neways Electronics International N.V.

The Group audit team sent detailed instructions to all selected group entity KPMG auditors, covering the significant areas that should be covered (which included the relevant risks of material misstatement) and set out the information required to be reported back to the Group audit team. Further, we have discussed these instructions with the selected group entity KPMG auditors. KPMG The Netherlands performed the audit procedures at Neways Advanced Applications B.V. and Neways Industrial Systems B.V. We involved KPMG Germany for the audit of Neways Deutschland GmbH. Given the significance of Neways Deutschland GmbH in Germany, we have visited this group entity, we performed a review of the audit files of KPMG Germany and attended the meeting with local management in which the audit findings were discussed. At other entities, we performed specified audit procedures.
Based on the procedures mentioned above at group entities we covered 84% of consolidated revenues, 80% of total consolidated assets and 90% of total consolidated equity and liabilities in our audit. For the remaining revenues, assets and liabilities we performed analytical procedures to confirm our initial assessment of the size and/or the risk profile of these group entities.

By performing the procedures mentioned above at group entities, 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.

Total assets

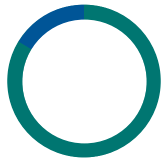


- Full scope audit
- Specified audit procedures at group level
- Out of scope

Total equity and liabilities

- Full scope audit
- Specified audit procedures at group level
- Out of scope

Revenue



- Full scope audit
- Specified audit procedures at group level
- Out of scope

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.

Estimates with respect to the valuation of deferred tax assets

Description

At 31 December 2016, an amount of EUR 5.6 million deferred tax assets is recognized (2015: EUR 4.5 million). These deferred tax assets relate to the net operating losses of Neways Deutschland GmbH of EUR 22.7 million. The availability of future taxable income is relevant for the recognition of deferred tax assets from net operating losses. The assessment of future taxable income and the recognition of deferred tax assets requires judgement and estimates and is therefore significant to our audit.

Our response

In relation to deferred tax assets our audit procedures included evaluating the company's assumptions and estimates in relation to the likelihood of generating sufficient future taxable profits. The company uses a valuation model to determine the amount of deferred tax assets to be recognized. We tested the consistency of the assumptions of this model with the valuation model the company used for the annual goodwill impairment test where we involved a KPMG valuation specialist. We reconciled the input used in the valuation model with the budget which has been approved by the Supervisory Board and we assessed the sales growth and profit margins included in the budget and evaluated historical accuracy of management's estimates.

When auditing the deferred tax assets we used amongst others the knowledge and experience of a tax specialist of KPMG Germany to assess the amount of available net operating losses to be carried forward and the correct application of local tax legislation.

We also assessed whether the group's disclosures related to the deferred tax assets meet the requirements.

Our observation

Overall we assess that the assumptions applied resulted in a balanced outcome. The group's disclosures related to the deferred tax assets as set forth in item 7 of the Notes to the 2016 financial statements are in compliance with the requirements of IFRS.

The operation of general IT controls

Description

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

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

Our response

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

Our observation

We found that the internal controls for the BaaN IV system and Infor LN were not operating effectively throughout the entire year. As a result, we are unable to rely on the application controls for purposes of our audit and we had to perform more substantive audit procedures (including detailed sample-based audit procedures for expenses and revenue). We also had to perform additional procedures on the information produced by the company (such as verifying individual items against invoices in the list of the trade receivables aging analysis).

Revenue recognition
Description The audit of the accuracy and occurrence of recognized revenue in accordance with the terms and conditions of the sales contracts throughout the year and particularly cut-off at year-end was significant to our audit.
Our response Revenue is made up of high volumes with relatively small individual orders. Considering the ineffectiveness of the general IT controls as set out above, we performed detailed sample-based audit procedures to establish whether the recognition of revenue is accurate. We verified whether revenue recognised corresponds to the sales order, whether the price is in accordance with the sales order and whether the delivery has taken place. In case of absence of a sales order or a shipping document we verified that the invoice is paid based on bank statements. We also reviewed the most important contracts, in terms of volume, to determine whether any extraordinary terms apply that might affect the timing of revenue recognition. For the audit of correct cut-off of revenue at year-end, we carried out audit procedures relating to deliveries shortly before 31 December 2016 and credit notes sent after year-end.
Our observation Our procedures did not result in any observations about the accuracy and occurrence of recognized revenue throughout the year or the period in which it was recognised in accordance with the relevant terms and conditions of the sales contracts.

Report on the other information included in the annual report

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

- the Report of the Board of Directors;
- the Corporate Governance Report;
- the Report of the Supervisory Board;
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Based on the below 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 Netherlands 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 Netherlands Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the Report of the Board of Directors in accordance with Part 9 of Book 2 of the Netherlands Civil Code and other Information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Engagement

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

Description of the responsibilities for the financial statements

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

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

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

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

Our responsibilities for the audit of financial statements

Our objective is to plan and perform the audit 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 have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in 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.

For a further description of our responsibilities in respect of an audit of financial statements we refer to the website of the professional body for accountants in the Netherlands (NBA).
https://www.nba.nl/globalassets/tools-en-voorbeelden/voorbeeldteksten-en-passages/standaardpassage-nieuwe-controletekst-oob-variant-engels.docx

Eindhoven, 2 March 2017

KPMG Accountants N.V.

M.J.A. Verhoeven RA

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

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

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

Proposed appropriation of the profit
The income statement shows that the net profit for 2016 was €9,694,000.

The Board of Directors proposes that the net profit be added to the retained earnings. The Board of Directors also proposes that a dividend of €0.34 per share be distributed for the 2016 financial year. The dividend will be paid in cash.

ADDRESS DETAILS

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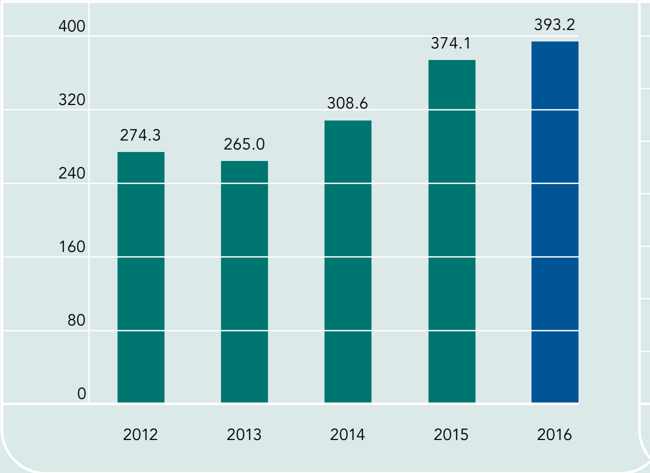
E-mail info@newayselectronics.com

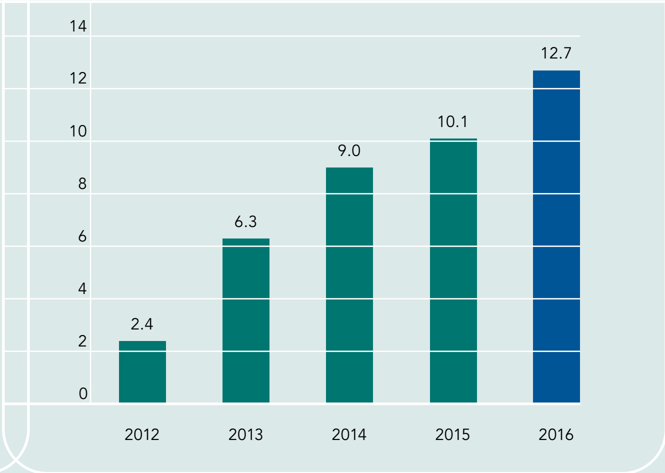
Neways Electronics International N.V.
is registered on the
NYSE Euronext Amsterdam

Key figures and five-year summary 2012-2016

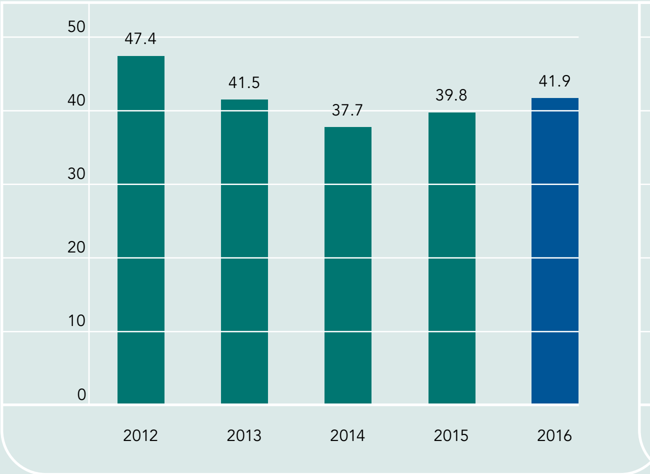
Revenue in EUR million



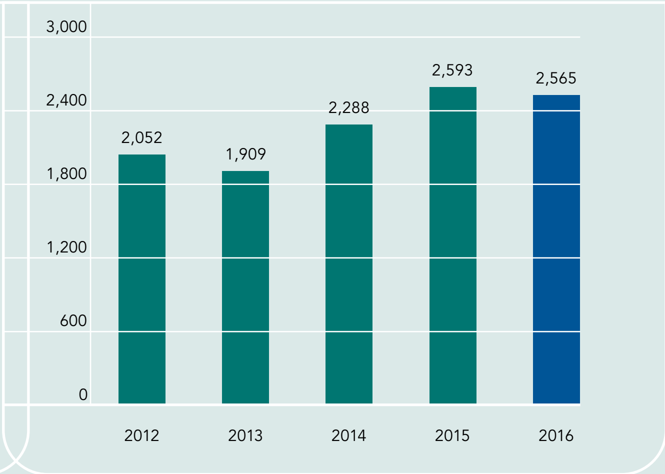
Operating profit in EUR millions



Solvency in % of the balance sheet total



Number of employees



Amounts in EUR million, unless stated otherwise	2016	2015	2014	2013	2012
Revenue	393.2	374.1	308.6	265.0	274.3
Gross margin	153.8	147.5	124.9	105.7	109.2
Operating profit net of exceptional income and expenses****	12.7	10.1	9.0	6.3	2.4
Operating results	11.8	5.9	6.6	2.6	2.4
Net profit net of exceptional income and expenses****	9.2	6.2	5.3	4.7	0.4
Net profit	9.7	3.2	7.0	1.9	–0.4
Net cash flow*	2.6	2.9	–32.5	28.4	–2.7
Equity	78.9	70.6	66.0	50.1	48.7
Guaranteed capital**	83.9	75.5	70.9	50.1	48.7
Balance sheet total	188.1	177.1	175.2	120.6	102.5
Capitalised goodwill	2.8	2.8	2.8	2.8	2.8
Interest coverage ratio***	6.8	4.9	6.9	11.2	3.2
Net Debt/EBITDA ratio***	1.5	1.9	1.7	0.1	1.1
Solvency					
Equity as % of the balance sheet total	41.9	39.8	37.7	41.5	47.4
Guaranteed capital as % of the balance sheet total	44.6	42.6	40.5	41.5	47.4
Profitability ratios* **					
Return on equity	11.7	8.8	8.1	9.4	0.8
Operating profit as % of revenue	3.2	2.7	2.9	2.4	0.9
Net profit as % of revenue	2.3	1.7	1.7	1.8	0.1
Operating profit as % of invested capital	14.7	11.7	9.7	11.5	4.4
Information per employee					
Workforce (in FTEs)	2,565	2,593	2,288	1,909	2,052
Revenue per employee (x 1,000)	153	144	135	139	134
Gross margin per employee (x 1,000)	60	57	55	55	53
Information per ordinary share, in euros (based on number of shares as at year-end)					
Net profit	0.85	0.28	0.63	0.19	–0.04
Net profit***	0.80	0.55	0.49	0.47	0.04
Equity	6.89	6.19	6.01	5.03	4.90
Net cash flow	0.23	0.25	–2.96	2.86	–0.27
Dividend	0.34	0.11	0.25	0.06	0.01
Dividend as a % of net profit (2012: excl. writedown of the deferred tax asset in Germany)	40.0	40.0	40.0	30.0	30.0
Number of shares at year-end x 1,000	11,459	11,401	10,986	9,946	9,943
Highest price	10.21	10.45	9.80	6.13	6.65
Lowest price	6.65	6.78	6.05	3.55	4.33
Closing price on 31 December	9.28	7.50	7.30	6.13	4.67

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

** Including subordinated loans.

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

**** See page 28.

COLOPHON

DESIGN AND PRODUCTION
C&F Report
Amsterdam

PHOTOGRAPHY
C&F Report (Christiaan Krop)

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