NEWAYS ELECTRONICS INTERNATIONAL N.V.

HALF YEAR REPORT 2019

Course of events in the first half year

Highlights

- Net turnover increases by 7.1% to € 264.5 million, largely driven by a stronger contribution from the semiconductor and automotive sectors and to a lesser extent from the industrial sector. Medical and defence remained stable.
- Order intake was 6.8% higher than in the first half of 2018, largely due to new e-mobility orders. The order book stood at € 342.6 million at end-June 2019, compared with € 300.8 million at end-June 2018.
- Gross margin rises by 5.2% to € 101.6 million, largely as a result of higher activity levels.
- EBITDA rises to € 15.6 million (including an IFRS 16 impact of € 2.6 million), compared with € 15.1 million in the first half of 2018.
- Net result declines by 25.0% to € 5.1 million.

Operational developments

Huub van der Vrande, CEO: "Following the record turnover recorded in 2018, we continued on our growth path in the first half of 2019, due in part to the strong demand for e-mobility solutions. Our order book remains well filled across the board, and pressure on deliveries is continuing, although geopolitical tensions have led to a slight decline in the pace of growth and certain clients are postponing orders, mainly in the semiconductor sector. The fact that we are continuing to grow despite a deterioration in market conditions shows that we have a good spread of our turnover, not just across market sectors but also within those sectors. Our continuing growth in the e-mobility segment within the automotive sector shows that we are making the right strategic choices.

Growth was also less predictable in the first half of 2019, which led to a temporary imbalance in the capacity utilisation within the group. In addition to the extra costs related to the relocation of certain products within the group, we also made investments in the start-up for new products. Disciplined cost controls and the improvement of our operational processes remain among our highest priorities as we strive to improve our results on a structural basis. A number of measures we took over the first half of the year have led to efficiency improvements, a relative improvement of our inventories position and, after a long period of increases, we are now seeing a moderate reduction in inventories when compared with the position at year-end 2018.

We expect the uncertain market conditions and geopolitical tensions to play a significant role in a number of the markets in which we are active in the second half of 2019. Despite the increased instability in the market, we will continue to execute our long-term strategy: on the one hand, we will maintain our focus on our selected growth sectors and customer philosophy; at the same time, we will intensify the cost-saving measures we have initiated to offset the decline in our productivity. Barring any unforeseen deterioration in the market, we expect to record higher turnover for the full year 2019 when compared with 2018, and an improved result in the second half of the year when compared with the first half of 2019."

Financial data

Net turnover increased entirely organically by 7.1% to € 264.5 million in the first half of 2019, largely driven by a stronger contribution from automotive and semiconductors. Order intake was 6.8% or € 19.4 million higher, which in turn led to a 13.9% increase in the order book to € 342.6 million, compared with € 300.8 million at end-June 2018. The book-to-bill-ratio was 1.15, largely driven by new orders in the automotive sector.

The gross margin came in 5.2% higher, thanks to higher activity levels. As a percentage of net turnover, the gross margin fell to 38.4% in the first half of 2019, from 39.1% in the first half of 2018 (H2 2018: 38.0%). This was due to lower returns in the start-up phase of new products and a change in the product mix that represents a higher material value.

Operating expenses rose by 8.1%, mainly due to an imbalance in the distribution of client demand between our production plants, the costs related to moving production between the plants and higher start-up costs for new products. Personnel expenses as a percentage of the gross margin had increased to 71% at end-June 2019, from 69% at end-June 2018. The decline in the margin was primarily due to an imbalance in capacity utilisation across the organisation as a whole. Overcapacity failed to generate sufficient cost savings, and pressure on the organisation elsewhere resulted in a loss of productivity and additional investments to facilitate growth.

Financing expenses, excluding the impact of IFRS 16 (€ 0.3 million), increased by € 0.2 million, primarily as a result of one-off costs for the expansion and extension of Neways' credit facility. In the first half of 2019, Neways converted the remaining € 1.1 million in convertible subordinated loans into shares. This, combined with the exercise of staff share options, resulted in an increase in the current number of outstanding ordinary shares to 12,134,534.

Net result decreased with 25,0% to € 5.1 million. Net result per share decreased with 26.3% to € 0.42 per share. Solvency stood at 35.2% at the end of the first half of 2019.

Risk factors and uncertainties with potential effect in the second half year 2018

The Neways reporting system and the key risks identified are explained in the risk and risk management section of the 2018 annual report, on pages 45-49. The risks described also apply to the second half of 2019.

Outlook

Neways is well positioned to continue to profit in the coming years from the expected growth in the market sectors in which we are active. The order book is currently at a clearly higher level than at end-June 2018, but the uncertain economic conditions in Europe and Asia, together with geopolitical tensions, are expected to play a significant role in a number of the markets in which Neways is active in the second half of 2019. In this context, our priority is to ensure that the Neways organisation is able to respond more effectively to the potential postponement of orders by its clients, and in the second half of 2019 we will intensify the measures initiated to improve our productivity levels. Barring any unforeseen deterioration in the market, we expect to record higher turnover for the full year 2019 compared to 2018, and an improved result in the second half of the year, when compared to the first half of 2019.

Directors' statement regarding financial reporting

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

The 2019 half year financial statements give a true and fair view of the assets, liabilities and financial position as at 30 June 2019 and of the results for the first half year of 2019 of Neways Electronics International N.V. and the Group companies included in the consolidation;

The 2019 half year report of the Board of Directors gives a true and fair view of the position as at 30 June 2019, the course of events in the first half of 2019 of Neways Electronics International N.V. and its Group companies included in the consolidation and the half year report describes the material risk facing the company.

Son (the Netherlands), 29 August 2019

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

Consolidated Statement of Realised and Unrealised Results

Amounts x € 1.000	first half year 2019	first half year 2018
Turnover sale of goods	264.529	247.010
Change in work in progress and finished products	0	1.712
Costs of materials	-162.936	-152.127
Personnel costs	-71.661	-66.599
Depreciation and amortisation	-7.103	-4.555
Special impairments on trade receivables and contracts	-188	-61
Other operating expenses	-14.177	-14.918
Operating result	**8.464**	**10.462**
Financing costs	-1.460	-970
Result before taxes	**7.004**	**9.492**
Taxes (6)	-1.946	-2.716
Net result	**5.058**	**6.776**
Unrealised results		
To reclassify in the profit and loss account in following periods:		
Exchange rate differences foreign subsidiaries	10	101
Unrealised results after taxes	**10**	**101**
Total realised and unrealised results after taxes	**5.068**	**6.877**
Result per share (in €)		
- Net result	0,42	0,58
- Diluted net result	0,41	0,56

Consolidated Balance Sheet

Amounts x € 1.000	30-06-2019	31-12-2018 *)
Activa		
Fixed assets		
Tangible fixed assets	78.361	39.743
Intangible fixed assets (7)	9.425	10.237
Financial fixed assets	4.964	3.825
	92.750	**53.805**
Current assets		
Inventories	113.992	115.131
Contract assets	12.966	12.966
Trade and other receivables	71.566	62.053
Corporate income tax	0	0
Cash and cash equivalents	91	1.066
	198.615	**191.216**
Total assets	**291.365**	**245.021**
Equity and liabilities		
Issued and paid-up capital	6.068	5.979
Share premium reserve	45.937	44.326
Retained earnings	49.912	50.669
Translation reserve	668	658
Equity attributable to holders of ordinary shares	**102.585**	**101.632**
Long-term liabilities		
Interest bearing loans (9)	29.984	0
Provisions	485	692
Pension and jubilee provision	4.816	4.959
Deferred tax liabilities	2.362	1.417
	37.647	**7.068**
Short-term liabilities		
Bank overdrafts (9)	56.599	41.817
Interest bearing loans (9)	4.659	1.130
Trade and other payables	77.396	82.833
Taxes and social security premiums	8.764	6.621
Corporate income tax (6)	2.056	2.107
Provisions	1.659	1.813
	151.133	**136.321**
Total equity and liabilities	**291.365**	**245.021**

*) The Group initially applied IFRS 16 as per 1 January 2019, using the modified retrospective approach, which entails that the cumulative impact of the initial application of IFRS 16 is recognised as an adjustment of the opening balance sheet, without any adjustment of the comparative figures.

Consolidated Cash Flow Statement

Amounts x € 1.000	first half year 2019	first half year 2018
Operating activities		
Results before taxes	7.004	9.492
Adjustments for:		
Depreciation of tangible fixed assets	6.238	3.707
Amortisation of intangible fixed assets	865	848
Costs granted staff options	27	17
Costs granted performance shares	175	90
Financing costs	1.460	970
Change in provisions and pension liabilities	-504	-1.049
Changes in working capital *)	-11.352	-5.534
	3.913	**8.541**
Other changes:		
Interest paid	-1.444	-873
Corporate income tax paid	-2.049	-2.705
Cash flow from operating activities	**420**	**4.963**
Investment activities		
Investments in intangible fixed assets	-65	-195
Investments in tangible fixed assets	-8.324	-5.988
Cash flow from investing activities	**-8.389**	**-6.183**
Financing activities		
Repayments of interest bearing loans	-44	-303
Payment of lease liabilities	-2.193	0
More (less) use of bank overdrafts	14.782	7.267
Dividends paid to shareholders	-5.815	-4.184
Revenues from exercise of options	398	106
Cash flow from financing activities	**7.128**	**2.886**
Change in cash and cash equivalents	**-841**	**1.666**
Net exchange rate differences foreign currencies	-134	-149
Cash and cash equivalents as per 1 January	1.066	1.041
Cash and cash equivalents as per 30 June	**91**	**2.558**
***) Changes in working capital**		
Inventories	1.139	-19.761
Trade and other receivables	-9.513	-5.389
Trade and other payables	-5.121	18.116
Taxes and social securities premiums	2.143	1.500
	-11.352	**-5.534**

Consolidated Statement of Changes in Group Equity

Amounts x € 1.000	Issued and paid capital	Share premium reserve	Retained earings	Exchange rate differences reserve	Total Equity
Balance as per 1 January 2018	**5.741**	**40.312**	**38.385**	**610**	**85.048**
Changes due to initial application of IFRS 15			-675		-675
Adjusted balance on 1 January 2018	**5.741**	**40.312**	**37.710**	**610**	**84.373**
Result for the period			6.776		6.776
Unrealised results				101	101
Total realised and unrealised results	0	0	6.776	101	6.877
Exercise share options (8)	8	98			106
Issuance share options		17			17
Issuance performance shares		90			90
Issuance of shares	229	3.671			3.900
Write-off participations		-83			-83
Dividends (8)			-4.184		-4.184
Total transactions with owners of shares in the Group	237	3.793	-4.184	0	-154
Balance as per 30 June 2018	**5.978**	**44.105**	**40.302**	**711**	**91.096**
Balance as per 1 January 2019 *)	**5.979**	**44.326**	**50.669**	**658**	**101.632**
Result for the period			5.058		5.058
Unrealised results				10	10
Total realised and unrealised results	0	0	5.058	10	5.068
Exercise share options (8)	24	374			398
Issuance share options		27			27
Issuance performance shares		175			175
Issuance of shares	65	1.035			1.100
Dividends (8)			-5.815		-5.815
Total transactions with owners of shares in the Group	89	1.611	-5.815	0	-4.115
Balance as per 30 June 2019	**6.068**	**45.937**	**49.912**	**668**	**102.585**

*) The Group initially applied IFRS 16 as per 1 January 2019, using the modified retrospective approach, which entails that the cumulative impact of the initial application of IFRS 16 is recognised as an adjustment of the opening balance sheet, without any adjustment of the comparative figures

Notes to the consolidated first half year results

1. Group-related information

Neways Electronics International N.V. is a company founded and with its head offices in the Netherlands and the shares in said company are traded publicly (ticker: 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 of advanced and integrated electronic components, combinations of same and systems for the industrial electronics sector.

2. Statement of compliance

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in accordance with IAS 34, 'Interim Financial Reporting'. The consolidated interim financial statements should be read in conjunction with the Group financial statements for the full year 2018. They do not contain all information that is required under a complete IFRS financial statement. An explanation is given, however, for specific events and transactions that are of significant importance for gaining insight into the changes in the financial position and performance since the last financial statements.

This is the first financial statement of the Group in which IFRS 16 has been applied. Changes in important principles for financial reporting are described in the notes under 4.

The Supervisory Board approved the interim financial statements as at 30 June 2019 on 29 August 2019. The contents of this interim report have not been audited.

3. New standards and interpretations

When drawing up the interim figures of the Group, the management made assumptions and estimates that affect the application of principles for financial reporting and the reported revenues, expenses, assets and obligations. The actual results may deviate from these estimates.

The significant assumptions and estimates made by the management regarding the application of principles for financial reporting are the same as those made and described in the most recent full year financial statements, with the exception of the new significant assumptions and estimates made with respect to the application of IFRS 16 'Leases', which are described in note 4.

4. Changes in significant principles for financial reporting

With the exception of the changes described below, the accounting policies are the same as those applied in the most recent full year financial statements.

The Group initially applied IFRS 16 *'Leases'* from 1 January 2019. IFRS 16 introduces a single model for the recognition of lease contracts in the balance sheets of lessees, which drops the distinction between operating and finance leases. The consequences for the Group as a lessee are that virtually all assets related to lease contracts have been recognised as right-of-use assets in the balance sheet and a lease liability has been recognised for the lease payment obligations. Upon the initial application of IFRS 16, the Group has made use of the modified retrospective approach, under which the cumulative effect of the initial application is recognised in the opening balance sheet as at 1 January 2019, without the adjustment of the comparative figures for 2018. Below you will find an explanation of the changes in the principles for financial reporting.

4.1 Lease definition

Previously, the Group determined whether a contract was or contained a lease according to IFRIC 4. From 2019 onwards, the Group judges whether a contract is or contains a lease on the basis of the new lease definition. Under IFRS 16 a contract is or contains a lease if the contract contains a right-of-use for an identified asset for a certain period in exchange for a payment. At the commencement of a contract or at the reassessment of a contract that contains a lease, the Group allocates the contractual payment to a lease and a non-lease component on the basis of the relative standalone prices.

As a lessee, the Group leases various assets, including buildings, production equipment and cars. Previously, the Group determined whether lease contracts were classified as operating leases or finance leases by determining which party assumed the most significant risks and benefits. Under IFRS 16, the right-of-use assets and lease liabilities attached to almost all lease contracts are recognised in the balance sheet. For some leases related to machines and inventory for underlying assets with a low value, the Group has chosen to not recognise the right-of-use assets and lease liabilities on the balance sheet. The lease payments related to these lease contracts are recognised under other operating expenses on a straight line basis over the term of the contract.

The group reports the right-of-use assets under property, plant and equipment, the same heading under which it reports the property, plant and equipment it owns. The carrying value of the right-of-use assets is as follows:

Amounts x € 1,000	Property, plant and equipment		
	Land and Buildings	Plant and equipments	Total
Balance at 1 January 2019	35,080	1,756	36,836
Balance at 30 June 2019	32,825	1,529	34,354

The Group reports its lease liabilities under the interest-bearing loans on the balance sheet.

4.2 Principles for financial reporting

The right-of-use assets and the lease liabilities are recognised from the commencement date of the lease contract. The right-of-use assets are initially recognised at cost price, less cumulative depreciations and cumulative impairments, and adjusted for certain recalculations of the lease obligations.

The lease liabilities are initially recognised on the basis of the cash value of the lease payments still due, discounted at the implicit interest rate of the lease contract in question, or at the Group's incremental interest rate if it is not possible to determine this implicit interest rate. The Group generally uses the incremental interest rate as the discount rate. After the measurement at initial recognition, the lease liability is progressively increased by the interest expenses and reduced by the lease instalments paid. Liabilities are recalculated when the future lease payments change as a result of a change in an index, a change in the estimates of the amount still due with respect to a residual value guarantee or, if applicable, a change in the estimation of whether the Group is likely to exercise a purchase option or an option to extend, or whether the Group is likely to exercise an option to terminate the lease contract.

The Group made assumptions when determining the lease terms for some contracts with options to extend. The estimation of whether the Group will, with a reasonable level of certainty, make use of such options has an impact on the lease terms, which in turn may have a significant impact on the amount of the lease liability and the right-of-use asset.

4.3 Transition to IFRS 16

Rental contracts for land and buildings were previously classified according to IAS 17. Most rental contracts run for a period of 10 to 12 years. Some contracts include an option to extend for an additional rental period of five years at the end of the noncancellable rental period. Most contracts include provisions for changes in the rental price based on indexation.

On the transition date, the lease liabilities for all leases classified according to IAS 17 were calculated on the basis of the cash value of the remaining lease instalments, discounted at the Group's incremental interest rate as at 1 January 2019. The right-of-use assets were calculated as an amount equal to the lease liabilities.

The Group made use of the following practical option when applying IFRS 16:

The use of the exemption entitling the Group to not recognise right-of-use assets and lease liabilities on the balance sheet for leases with a term of less than 12 months.

When measuring lease liabilities that were previously classified as operating leases, the Group discounted the lease payments at the incremental interest rate as this stood at 1 January 2019. The interest rate applied was 1.5%.

Due to the initial application of IFRS 16 with respect to leases that were previously classified as operating leases, the Group recognised € 36,836,000 in lease obligations under interest-bearing loans on 1 January 2019, and recognised € 34,642,000 on 30 June 2019. With respect to the application of IFRS 16, the Group recognised depreciation and financing expenses in the statement of profit or loss, rather than operating lease expenses. In the first six months of 2019, the Group recognised € 2,527,000 in depreciations and € 292,000 in financing expenses with respect to its lease contracts.

5. Operational segments

The Group's long-term strategy is aimed at strengthening its position as a one-stop provider for client-specific industrial and professional electronic components, combinations and systems for the Electronic Manufacturing Services (EMS) market. Intensive collaboration and clear communications between the various Neways operating companies ensure that Neways' customers in this market are serviced as effectively as possible, and that our clients have a single contact point for their dealings with the Group.

Neways' Western European operating companies play an important part in promoting Neways' strategy as a one-stop provider. Those operating companies are close to Neways' clients, both in terms of their dealings with clients and geographically.

Neways' operating companies in Eastern Europe and Asia focus primarily on the production of larger, less complex and stable series, with a view to achieving cost advantages for our clients. Most of this production is commissioned by sister companies in Western Europe.

Continual improvement of intra-Group cooperation at every levels of the organisation is a vital factor in ensuring that the Group operates as a homogeneous, integrated group of businesses with cohesive quality standards, recognisable cultural aspects and a shared vision.

The decisions made by the Group's management are based on its own judgements and direct communications with all parties involved. Financial control is based on consolidated information. Neways therefore operates in just one segment as meant in IFRS 8.

6. Taxes

The tax rate for the first half of 2019 was 27.8% (first half 2018: 28.6%). This tax rate differs from the prevailing 2019 corporate income tax rate of 25% in the Netherlands, largely due to a higher tax rate in Germany.

7. Testing for impairment of goodwill

Neways tests for impairment of goodwill annually (as per 31 December), or more frequently if events or changes in circumstances indicate that the carrying amount of goodwill may be impaired. The recoverable value of goodwill is determined at the higher of value in use and the direct realisable value, less sales costs. The assumptions used to calculate the value of the future cash flows of the cash-generating units were included in the 2018 financial statements.

The impairment indicators the Group assesses for potential impairment include the ratio of the stock market capitalisation to the carrying amount. As at 30 June 2019, the Group's stock market capitalisation was higher than the carrying amount of the Group's equity.

8. Equity

8.1 Issuance of ordinary shares

In the context of the current share option scheme for the members of the Board of Directors and a select group of key positions, Neways issued 47,500 ordinary shares in connection with the exercise of share options (2018: 15,000). These options were exercised at an average price of € 8.37 per share (2018: € 7.05 per share). Due to the conversion of the remaining part of the convertible loans, Neways issued 129,410 ordinary shares (2018: 458,823). These loans were converted at a price of € 8.50 per share. As per 30 June 2019, the total number of outstanding ordinary shares stood at 12,134,534.

8.2 Dividend paid

	30 June	
Amounts x € 1,000	**2019**	**2018**
Adopted and paid out in the first half of 2019		
Dividend on ordinary shares:		
Final dividend for 2018: € 0.48 (2017: € 0.35)	5,815	4,184

9. Financial obligations

The fair value of all the Group's financial instruments is close to the carrying amount.

10. Related-party transactions

The table below shows the total amount of the related-party transactions in the first half of 2019 and 2018:

Amounts x € 1,000		**Sales to**	**Purchases/Services from**	**Owed by**	**Owed to**
Entity with significant impact on the Group:					
VDL Groep	2019	12,636	2,243	5,426	822
	2018	11,346	2,361	5,652	966

Open balances are not covered by collateral, are not interest bearing and are settled in cash. Neways has not extended or received any guarantees for the claims on or debts of the related parties.