annual report 2017

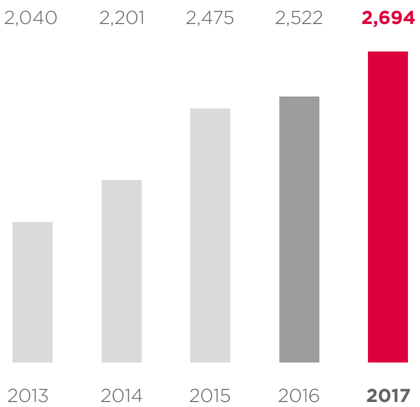
annual report 2017

aalberts
mission critical technologies

key figures 2017

revenue

(in EUR million)

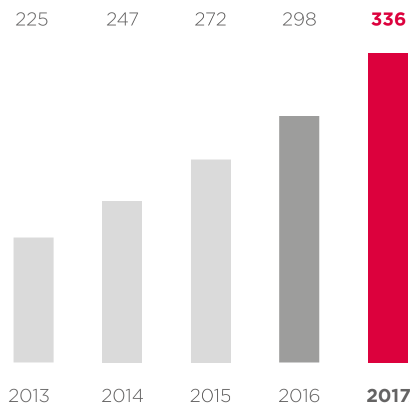


2,694

+7%

operating profit (EBITA)

(in EUR million)

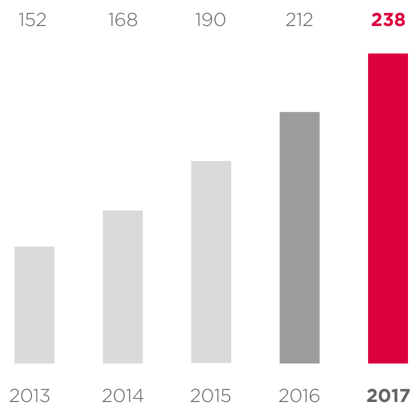


336

+13%

net profit (before amortisation)

(in EUR million)

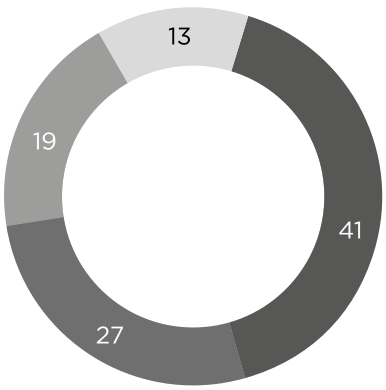


238

+12%

revenue spread

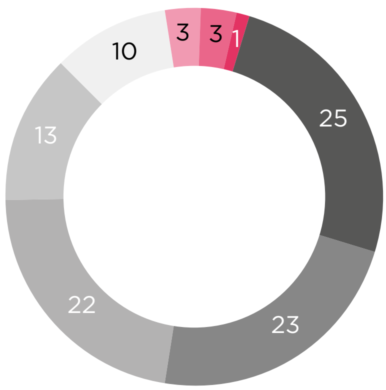
per business



- Installation Technology **41%**
- Material Technology **27%**
- Climate Technology **19%**
- Industrial Technology **13%**

per region

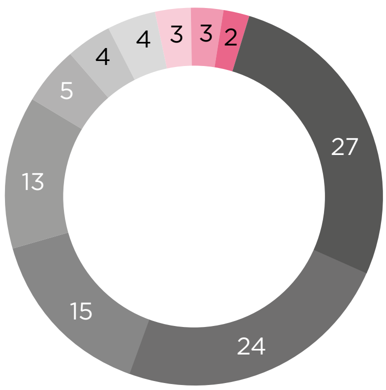
(in %)



- Benelux, United Kingdom, Nordic **25%**
- North America **23%**
- Germany, Austria, Switzerland **22%**
- France, Southern Europe **13%**
- Russia, Eastern Europe **10%**
- Far East **3%**
- Middle East & Africa **3%**
- Other countries **1%**

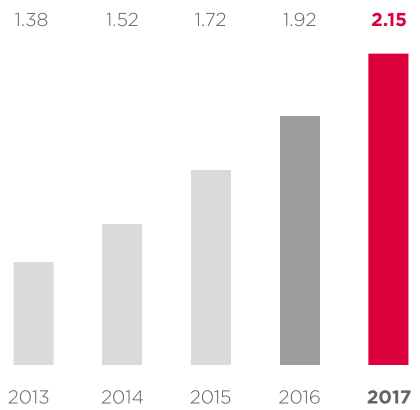
per end market

(in %)



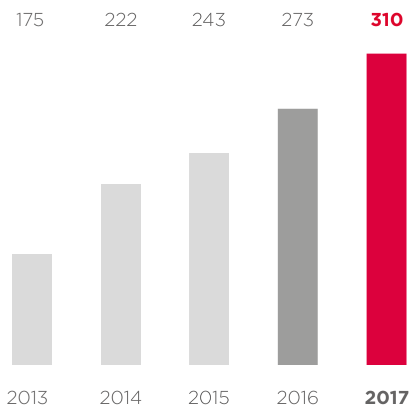
- Commercial Buildings **27%**
- Residential Buildings **24%**
- General Industries **15%**
- Automotive **13%**
- Industrial Installations **5%**
- Water & Gas Supply, Irrigation **4%**
- Semicon & Science **4%**
- Power Generation, Aerospace **3%**
- Beverage Dispense **3%**
- District Energy, Gas **2%**

earnings per share (before amortisation)
(in EUR)



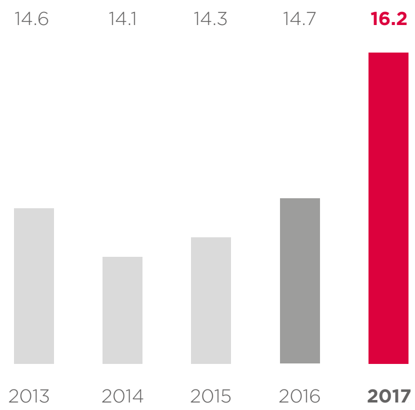
2.15
+12%

free cash flow (before interest and tax)
(in EUR million)



310
+13%

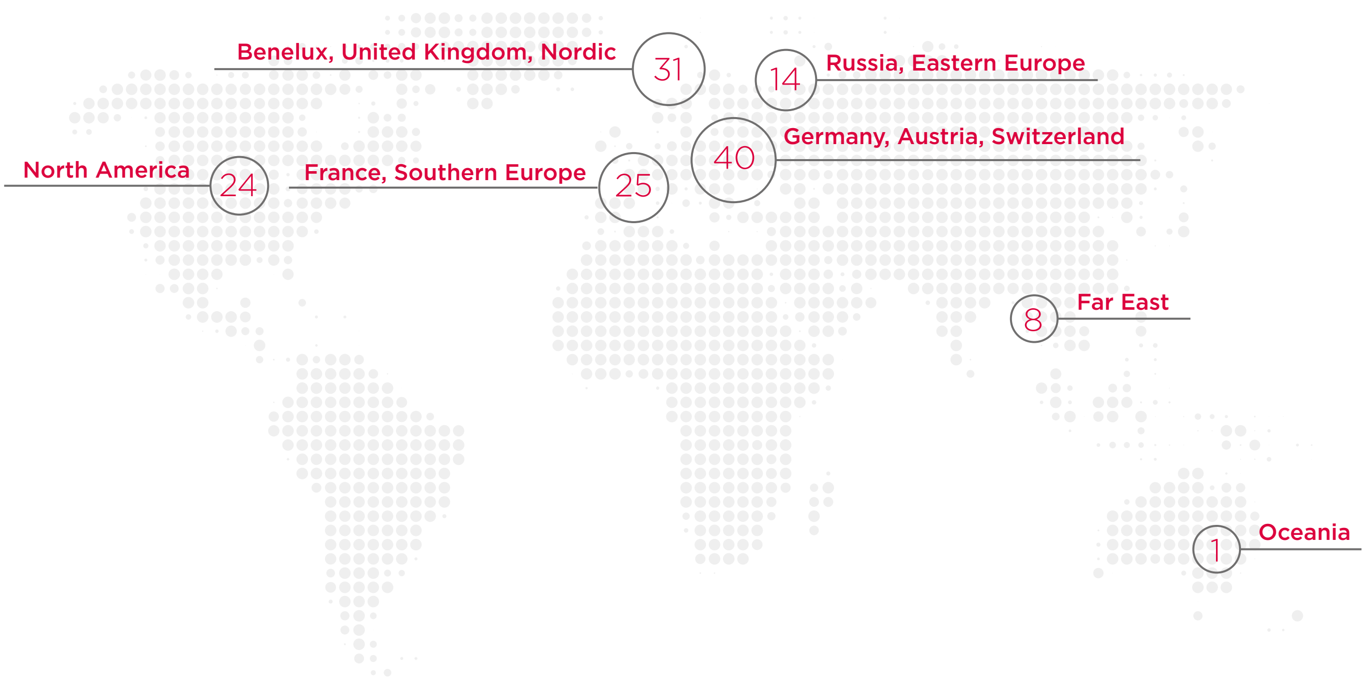
return on capital employed (ROCE)
(in %)



16.2

more 2013-2017 figures on page 108

locations worldwide



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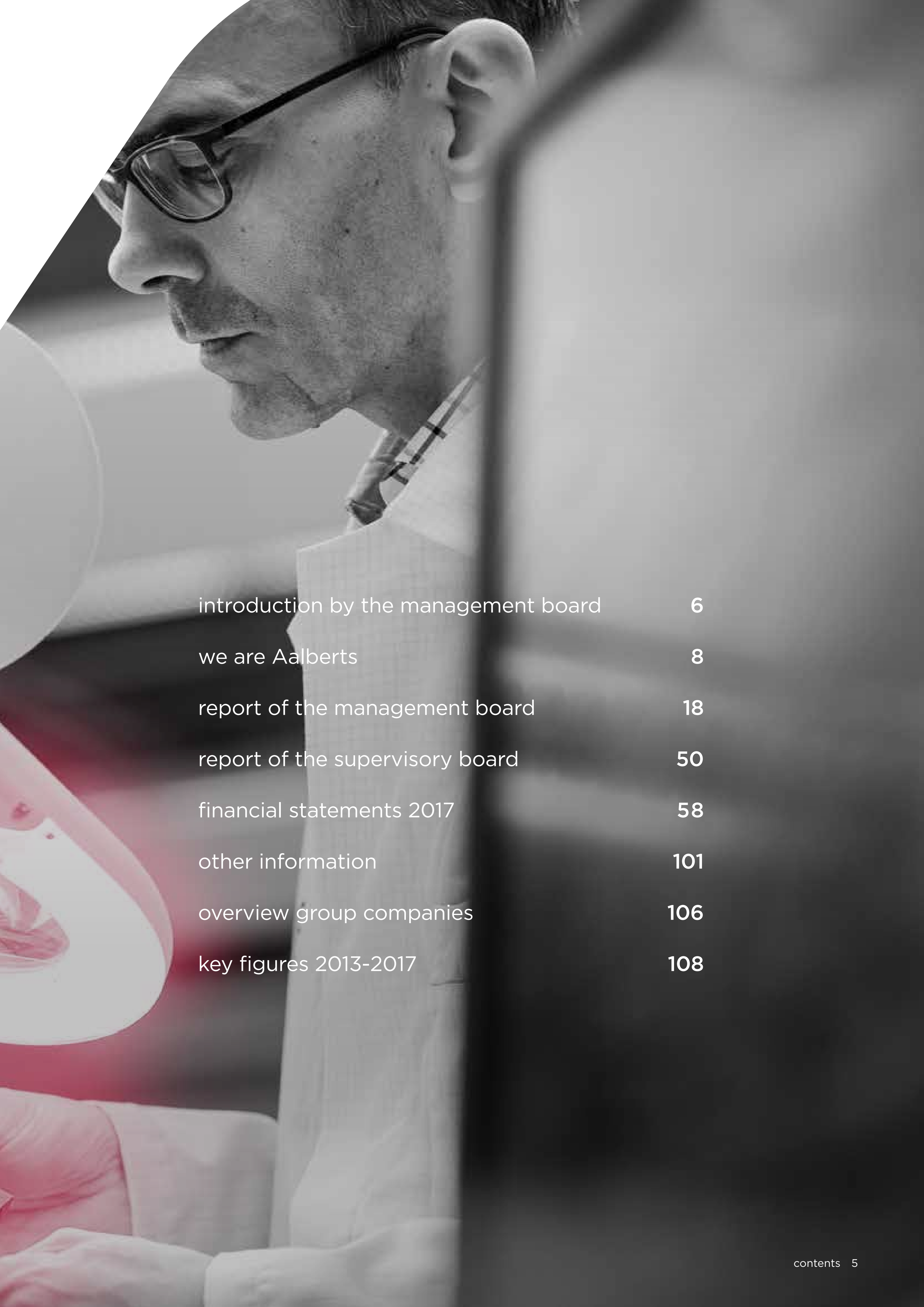

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Dear shareholders, partners and colleagues,

We realised 6% organic revenue growth in 2017, an excellent performance.

Also in 2017 we posted a record net profit before amortisation of EUR 238 million (earnings per share: EUR 2.15), up 12% from 2016 and a record EBITA of EUR 336 million, up 13% from 2016. Our EBITA margin improved to 12.5% (2016: 11.8%). Our cash flow from operations increased to EUR 427 million, up 12% from 2016 and we managed to grow our revenue to EUR 2,694 million.

Besides this record performance we were also able to invest in many organic growth and innovation initiatives. These additional projects were driven forward by motivated business teams, focused on a clear business definition combined with long-term business plans and innovation roadmaps. We also supported the business teams with clear investment plans to facilitate the growth and execute the long-term innovations.

We relentlessly pursued and expanded our Operational Excellence programme, using our Aalberts strengths. We still have many opportunities to improve our sales, operations and supply chains. Our global Operational Excellence network was expanded, now containing members of all business teams. For other important subjects like Governance, Marketing, Finance & IT, Human Resource Development, Key Account Management, Pricing Excellence and Innovation, we also installed networks to make much more use of our Aalberts strengths. These Aalberts networks communicate regularly about best practices and meet once or twice a year. Many projects are in progress to further professionalise our organisation, improving step by step with a good team spirit.

During our first Capital Markets Day in December 2017, we presented our updated strategy 'focused acceleration' for the coming years and combined the day with an Innovation Experience for shareholders and potential investors. Our focus for the coming years will be to drive the defined niche technologies forward by dedicated, worldwide responsible business teams based on long-term business plans and innovation roadmaps. Our goal is to achieve better market positions, accelerate organic growth in combination with bolt-on acquisitions, achieve higher EBITA margins and further improve our ROCE. Our Aalberts networks enable us to learn fast from each other, improving our processes and speeding up innovations.

'The Aalberts way - winning with people' was further implemented throughout the group. It represents our values and way of working. Implementation will be pursued in the coming years, combined with our defined Aalberts company passport. Our governance and controls also strengthened during the year. Our treasury system was further implemented, internal audit is getting more traction, we expanded our governance E-learning modules and sustainability initiatives, and we included health & safety in the Operational Excellence programme.

developments per business

In installation technology, niche technology integrated piping systems realised good organic growth. We started delivering several new Key Accounts and expanded our offerings to others. Additional investments were made to facilitate the growth of these customers for the coming years. We also shipped our new patented connection system to the first customers in North America. We started implementing our long-term innovation roadmap and we further aligned our marketing and sales approach in combination with our improved distribution footprint. Also here additional investments were made to facilitate these improvements. Our more focused approach with plastic connection systems resulted in excellent growth. We expanded our portfolio and defined long-term innovation roadmaps in the several niche market segments to further accelerate organic growth in the coming years.

In material technology, niche technology heat treatment performed well in almost all regions and end markets. We further expanded our capacity in North America and Eastern Europe. Our activities in surface treatment did also well. Especially in the end market Automotive we faced good circumstances. The ramp up of the greenfields is making good progress. Many Operational Excellence projects are in progress to improve the efficiency of the locations. The specialised manufacturing activities related to complex precision stamping performed well in almost all regions. We started many R&D projects for the electrification of vehicles and autonomous driving. The precision extrusion activities continued on a high level. The long-term business plan was further executed with the planned investments to facilitate growth. The precision machining for turbines faced low activity in the OEM business, partly compensated with new business in the repair market. Our new initiatives on additive manufacturing resulted in the first orders.

In climate technology, niche technology hydronic flow control delivered good organic growth in almost all regions. With several Key Accounts we expanded our offering during the year. We continued to integrate and optimise our joint marketing and system sales approach. A long-term business plan was finalised to improve the efficiency and to facilitate the growth potential for the coming years. We started pilots to develop digital solutions making our products and systems connected. Our thermal & sanitary efficiency activities also performed well. In many regions we realised good growth, especially in France we did well. We defined a long-term business plan and an innovation roadmap for the coming years to reach a higher added value. Also here, we started pilots to develop digital connections and data collection, creating new business models.

In industrial technology, our niche technology fluid control still faced difficult circumstances in the Oil end market. We focused more on our District Energy & Gas activities where positive market developments resulted in good growth. In Automotive and General Industries end markets we made a good year and we invested in additional engineering capacity to accelerate our innovation roadmap for the coming years. Our dispense technologies in the Beverage Dispense end market faced a difficult year. We continued to align the global business, including VIN SERVICE, acquired at the beginning of 2017. Our niche technology advanced mechatronics made an excellent year. We realised an exceptional growth in the Semicon & Science end market. Also, we made preparations and pre-investments for the increased orderbook and additional projects, announced at the beginning of 2017. The organisation was further aligned, including PNEUTEC acquired in July 2017.

dividend proposal

We will propose to the General Meeting that the dividend payment for 2017 should be fixed at EUR 0.65 per share, to be paid in cash, an increase of 12% from 2016.

our way forward

We will execute our updated strategy 'focused acceleration' and objectives, as presented in December 2017, and drive our long-term business plans and innovation roadmaps. We expect further sustainable profitable growth in 2018.

We would like to thank our partners for the trust they place in Aalberts.

A big thank you to all our employees for their tremendous efforts during the year, their relentless drive for results, improvements, innovation initiatives and service to our customers. It is amazing what all teams have achieved. Let us continue this during 2018.

Thank you again for being a shareholder in our company. Our successful track record is the result of our motivated Aalberts team driving results every day, our focused strategy and our patience and discipline in creating long-term shareholder value. You can expect us to continue this in the years ahead.

Langbroek, 27 February 2018

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

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

We aim for leading niche technology positions with a certain uniqueness, focusing on ten end markets, realising sustainable profitable growth and creating long-term shareholder value. This is realised by our entrepreneurial local approach, delivering high added value and operating profit margins, continuously converting our operational execution into free cash flow. We reinvest this cash to strengthen our niche technology market positions through organic growth, innovations and bolt-on acquisitions. Critical to our succes is a disciplined and focused allocation of capital. With over 16,000 employees, Aalberts operates some 70 business locations and 80 service locations with activities in over 50 countries.

Our lean and efficient organisational structure of four business segments is covered by 15 business teams. The Executive Team is responsible for the leadership of these business teams, best practice exchange through specialised Aalberts networks and driving our strategy 'focused acceleration' 2018-2022.

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

installation technology

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

material technology

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

climate technology

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

industrial technology

Industrial technology engineers and manufactures (custom made) solutions for specific niche applications to regulate and control gasses and liquids under often severe and critical conditions and co-develops and integrates specialised manufacturing technologies.

the Aalberts way – winning with people

be an entrepreneur	take ownership	go for excellence	share and learn	act with integrity
We explore and make dreams happen.	We are responsible for achieving our own commitments.	We are passionate, self-critical and persistent in everything we do.	We learn from each other by being professional and open-minded.	We lead by example, act transparently and speak up.
We adapt, innovate and focus on our customers' requirements and give them back so much more than they expect.	Proactive, accountable, and empowered to perform.	We challenge the status quo, push boundaries and think outside the box. And we deliver results.	We get better every day. We are not afraid of failure. In fact, we embrace it as a valuable stop on the route to success.	We are professional at all times, and in everything we do.

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

Our key strength is not the seminal niche technology we produce, but the restless, straight-shooting, entrepreneurial souls who create it. We are a company of mission-critical people who can't resist going beyond the line of duty. For us, the whole nine yards and the extra mile are only the beginning. For us, good is never good enough.

We believe that greatness demands more than ingenuity and that failure is a valuable stop on the way to success. Sharing and discussing 'bad' gets us to 'brilliant'. No matter how big the problem or opportunity is, when we say "We got this", we won't let go until there is nothing left to learn. This is how we deliver excellence.

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

What is the story behind Aalberts' successful track record of continuous growth and exceeding expectations?

To date, Aalberts has been acting below the radar using individual company brands for the day-day business. As the collective enterprise has grown, so too has the global footprint of the company. This growth has led to new business opportunities across markets involving multiple companies, securing the opportunity by making use of the overall Aalberts strength. We re-evaluated and modernised the Aalberts brand to spearhead this next chapter in the company's evolution.

delivering vital innovation

We are a brand for straight-talking, can-do, no-nonsense pragmatists. We win with people. It's that simple. We want to get the most out of ourselves, every day. We blend boundary-pushing engineering with silo-breaking entrepreneurial business sense. This is how we keep our eyes open for technological opportunities and how we manage to capitalise on them in a profitable way. Whatever the situation or request is, we put together the right team to change the game. That is how we deliver vital innovation to ground-breaking industries.

how 'brilliant' is made

As much as our focus, determination and thinking propel us forward, we know that our achievements are the result of our ability to learn from failure and a steadfast commitment to share what we have learned with each other. This is how 'brilliant' is made. Working as one, we improve the world of today and invent it for tomorrow.

This brand voice is infused in everything we do. It is the DNA of our company, it is what we stand for and what we practice and deliver every day. We have developed a company passport and creative articulation to create awareness of the unique Aalberts brand culture – so that we continue to strengthen within an increasingly competitive marketplace.

Get the full story at aalberts.com/brand

talent development

In order to strengthen our employer attractivity in an increasingly competitive marketplace, we further developed strategies to put specific focus on retaining and developing our people 'the Aalberts way' and to attract talents to help us grow our niche technology positions.

The introduction of our Aalberts strategy 'focused acceleration' 2018-2022 follows an organisational change we successfully initiated and managed in the last years. Our organisational structure of four business segments is now covered by 15 business teams. This change brings a lot of benefits for our Human Resource Development (HRD) activities.

Lean and larger structures with long-term business plans create more direction and transparency, whilst offering bigger responsibilities and opportunities. An effective internal HRD network gives us the opportunity to speed up implementations and to share & learn from each other. Furthermore, we have the chance to develop long-term career tracks for our talents.

Aalberts HRD network

We successfully built and structured our HRD network in 2017. With several experts on board, we are now able to link all groupwide HRD activities. By using a best practice approach we can benefit from each other's experience.

Aalberts leadership development programme

In 2017 we identified and assessed several Aalberts talents in each business segment. Leadership development programmes for different levels with focus on 'the Aalberts way' are currently being designed and customised and will kick off in 2018. This enables us to develop our rich Aalberts talent pool over the next years.

Aalberts trainee programme

A further step in our strategic workforce planning was the establishment of an Aalberts trainee programme during the year. We hired three trainees to work on projects for 3-6 months at our sites all over the world. They will successfully finish their programme in 2018 and will gain a strategic position in one of our companies. Excellent results and learnings resulted in a continuation of the programme and the hiring of three new trainees for 2018. In 2019 we intend to further enhance the programme also to other business segments, offering a global Aalberts traineeship.

sustainability impact Aalberts

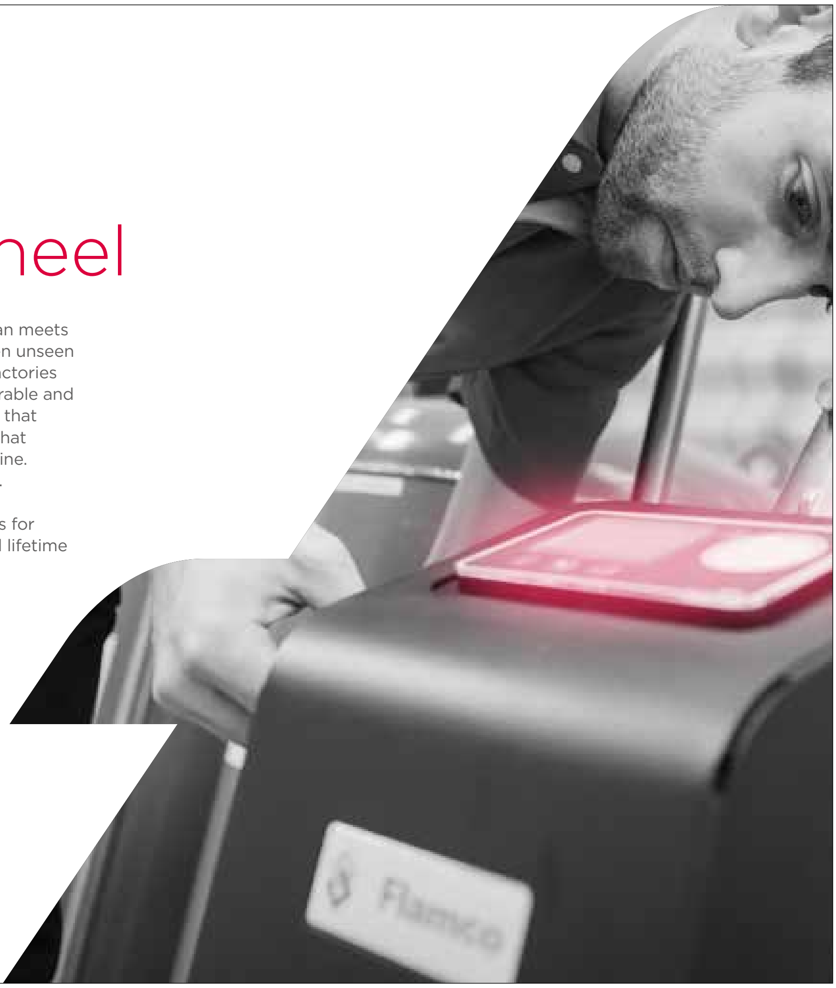
the essential cog in the wheel

When it comes to big achievements there is more than meets the eye. They are built from many essential - and often unseen - parts. Aalberts creates the technologies that help factories flow, keep buildings healthy, make materials more durable and allow cars to stop instantly. The fail-safe components that makes the world go round. Real-world technologies that progress can't do without and allow shiny parts to shine. The technologies that keep our planet in good shape.

Aalberts takes on a sustainable role with technologies for eco-friendly buildings, sustainable transportation and lifetime extension of materials.

learn more about our sustainable role at page 38

aalberts
mission critical technologies



strategy 'focused acceleration' 2018–2022

remain focused

continued focus on businesses, end markets and niche technologies with sustainable profitable growth potential, delivering high added value for our customers

improve technology positions

accelerate organic growth, increase game changing innovations executing our long-term innovation roadmap, combine our offerings to Key Accounts and strengthen our market positions with mainly bolt-on acquisitions

improve profitability continuously

relentlessly continue and expand our Operational Excellence programme through pricing excellence, make or buy decisions, further consolidation of locations, manufacturing and supply chain efficiency improvements

use Aalberts strengths

together, winning with people, by exchanging best practices of manufacturing technology, innovations, working methods & know-how utilising our Aalberts brand, global footprint, investment power, acquisition expertise and talented people

global technology company with clear growth drivers

worldwide leading niche technology positions	creating sustainable profitable growth	generating high added-value margins	converting strong operational execution into free cash flow	achieving following financial ratios
in the defined end markets and businesses supported by strong brand names, serving a variety of global end markets.	in earnings per share with a good spread in businesses, technologies, end markets and geographical regions with good growth potential.	by creating leading niche technology-end market positions, Operational Excellence, providing excellent services to our customers and continuously driving innovations.	to reinvest in selected businesses and technologies, with disciplined allocation of capital, to accelerate organic growth, innovations and acquisitions.	average organic revenue growth > 3% EBITA margin > 14% ROCE > 18% FCF conversion ratio > 70% leverage ratio < 2.5 solvability > 40%

6 reasons to invest in Aalberts

1. **continuously focus our niche technology portfolio** to realise or improve our leading market positions
2. **generating high customer added value** resulting in strong pricing power, accelerated by long-term innovation roadmaps per niche technology
3. **driving Operational Excellence programmes relentlessly** to generate more free cash flow and profits
4. **accelerating organic niche technologies growth** driving operational leverage in our manufacturing
5. **allocating capital in a disciplined way** to accelerate growth and innovations in the defined strategic direction
6. **creating a balanced business portfolio** using the Aalberts strengths

the Aalberts share

key share information	2017	2016	2015	2014	2013
closing price at year-end (in EUR)	42.40	30.82	31.79	24.54	23.18
highest price of the year (in EUR)	43.77	32.00	31.92	25.90	23.40
lowest price of the year (in EUR)	29.97	25.70	22.81	18.27	15.56
average daily trading (in EUR thousands)	11,792	8,402	9,494	4,345	3,344
average daily trading (in thousands of shares)	320	287	337	191	179
number of shares issued as at year-end (in millions)	110.6	110.6	110.6	110.6	110.6
average number of shares issued (in millions)	110.6	110.6	110.6	110.6	110.1
market capitalisation at year-end (in EUR millions)	4,688	3,408	3,515	2,713	2,563
earnings per share before amortisation (in EUR)	2.15	1.92	1.72	1.52	1.38
dividend per share (in EUR)	0.65	0.58	0.52	0.46	0.41
price/earnings ratio at year-end	19.7	16.1	18.5	16.1	16.8

listing

Our head office is based in the Netherlands and we have been listed on Euronext Amsterdam (ticker symbol: AALB.AS) since March 1987 and are included in the AEX index since 23 March 2015. At year-end 2017, 110,580,102 ordinary shares with a nominal value of EUR 0.25 each were in circulation; the market capitalisation amounted to EUR 4,688 million (at year-end 2016: EUR 3,408 million).

dividend policy

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

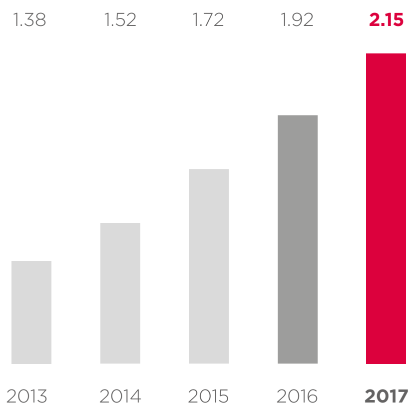
shareholders' interests

Around 90% of the shares is freely tradable. Pursuant to the Decree on Disclosure of Major Holdings and Capital Interests in Securities-Issuing Institutions as part of the Dutch Financial Supervision Act, shareholders holding more than 3% of the outstanding shares must be disclosed.

shareholder	interest	disclosure date
Aalberts Beheer B.V., J. Aalberts, J.A.M. Aalberts-Veen	13.27%	3 February 2011
FMR LLC	10.13%	12 December 2017
Oppenheimer Funds, Inc.	9.91%	22 November 2016
Capital Research and Management Company	5.51%	30 November 2017

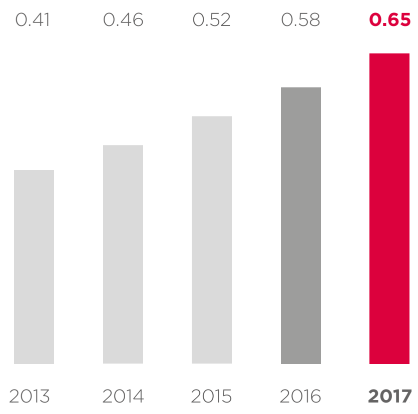
earnings per share (before amortisation)

(in EUR)



dividend per share

(in EUR)



focus

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Aalberts operates worldwide in four business segments, ten niche technologies, eight geographical regions and ten end markets. Market developments and dynamics are different in each business segment. This divergence contributes to the long-term, balanced and sustainable profitable growth for the company.

In addition, it gives us the opportunity to accelerate and develop our niche technologies, end markets and regions simultaneously. We allocate our capital there where we make the highest return, a decision we take with our business teams. In this way, combined with bolt-on acquisitions, we continuously create shareholder value.

The Executive Team is responsible for the day to day leadership of the 15 business teams, driving forward the worldwide development of our niche technologies, best practices exchange through specialised Aalberts networks and our strategy ‘focused acceleration’ 2018-2022 to achieve our Aalberts objectives. A lean and effective management structure.

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

financial development

revenue per business

in EUR million	2017	2016	Δ
installation technology	1,134.8	1,073.1	6%
material technology	733.9	699.2	5%
climate technology	523.8	501.8	4%
industrial technology	362.9	312.3	16%
holding / eliminations	*(61.4)*	*(64.3)*	
total	**2,694.0**	**2,522.1**	**7%**

EBITA

in EUR million	2017	2016	Δ
installation technology	138.7	122.4	13%
material technology	97.3	90.6	7%
climate technology	62.3	54.0	15%
industrial technology	54.4	46.2	18%
holding / eliminations	*(17.2)*	*(15.1)*	
total	**335.5**	**298.1**	**13%**

The revenue increased by 7% (organic +5.5%) to EUR 2,694 million (2016: EUR 2,522 million). Currency translation/FX impact amounted to EUR 22 million negative, mainly caused by British Pound (EUR 15 million negative), US Dollar (EUR 13 million negative) and compensated by Russian Ruble (EUR 5 million positive).

The added-value margin (revenue minus raw materials and work subcontracted) improved to 62.3% (2016: 62.2%), despite raw material price increases during the year.

Operating profit (EBITA) increased by 13% to EUR 335.5 million (2016: EUR 298.1 million), 12.5% of the revenue (2016: 11.8%). Currency translation/FX impact amounted to EUR 1.7 million negative, mainly caused by British Pound and US Dollar.

Net interest expense amounted to EUR 16.7 million (2016: EUR 16.6 million). The income tax expense increased to EUR 68.0 million (2016: 62.4 million) resulting in an effective tax rate of 24.6% (2016: 25.2%).

Net profit before amortisation increased by 12% to EUR 238.2 million (2016: EUR 212.4 million), per share by 12% to EUR 2.15 (2016: EUR 1.92).

Capital expenditure on property, plant and equipment increased by 13% to EUR 118.9 million (2016: EUR 105.6 million).

Net working capital decreased to EUR 455 million, 16.8% of revenue (2016: EUR 480 million, respectively 18.8%).

Free cash flow (before interest and tax) increased by EUR 37 million (+13%) to EUR 310 million (2016: EUR 273 million) and the free cash flow conversion ratio improved to 73.4% of EBITDA (2016: 69.8%), despite an increase in capital expenditure.

Cash flow from operations increased by 12% to EUR 427.0 million (2016: EUR 382.5 million).

Return on capital employed (ROCE) improved to 16.2% (2016: 14.7%).

Total equity remained at a good level of 52.0% of the balance sheet total (2016: 48.7%).

Net debt amounted to EUR 569 million (2016: EUR 713 million) despite two bolt-on acquisitions. The leverage ratio ended at 1.3 (2016: 1.7), well below the bank covenant < 3.0.

installation technology

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

key figures

revenue (in EUR million) 1,135 +6%	**capex** (in EUR million) 43 +12%
EBITA (in EUR million) 139 +13%	**EBITA %** (% of revenue) 12.2 (2016: 11.4)

niche technologies & brands

aalberts integrated piping systems — Apollo Flow Controls, VSH

aalberts plastic connection systems — HENCO, LASCO Fittings, Inc.

end markets

- commercial buildings
- residential buildings
- industrial installations
- water & gas supply, irrigation

operational developments – installation technology

Niche technology **integrated piping systems** realised good organic growth, mainly in Europe. We started delivering to several new Key Accounts and expanded our offering to others. Additional investments were made to facilitate the growth of these customers for the coming years.

We also shipped our new patented connection system, including the valves, successfully to the first customers in North America. A further role out will take place during the coming years. We started implementing our long-term global innovation roadmap in combination with the integration of the 2016 acquisitions of TRI-WENT and SHURJOINT.

In North America orders increased during the second half of the year, especially in the Industrial Installation end market. The marketing and sales approach was further aligned and strengthened in combination with our improved distribution footprint in North America. Also here additional investments were made to facilitate these improvements.

The activities in **plastic connection systems** realised excellent growth in many countries, especially in Europe, through a more focused approach. We expanded our portfolio and defined long-term innovation roadmaps in the several niche market segments to further accelerate organic growth in the coming years. In the different locations we also defined investment plans for equipment, logistics and distribution to facilitate the many opportunities.

The operational performance improved during the year through the execution of many Operational Excellence projects.

in EUR million	2017	2016	Δ
revenue	1,134.8	1,073.1	6%
operating profit (EBITA)	138.7	122.4	13%
EBITA as a % of revenue	12.2	11.4	0.8
CAPEX	43.2	38.7	12%

strategy in action

reliability and quality are crucial

A global security and aerospace company headquartered in the United States of America, has a clear mission: solve complex challenges, advance scientific discovery and deliver innovative solutions to help our customers keep people safe.

To achieve its objectives for a new facility in Fort Worth, Texas, the company turned to Aalberts integrated piping systems. Reason for partnering with Aalberts was a combination of the reliability of metal-seated, fire-safe butterfly valves for the facility's wind tunnels and the professional engineering services during the project preparation phase.

During this six-month project, our high-performance butterfly valves in various sizes were applied. The total mix of product quality, ease of installation, completeness of the portfolio, excellent delivery and engineering services turned this project into a big success for both the customer and Aalberts integrated piping systems.

material technology

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

key figures

revenue (in EUR million) 734 +5%	**capex** (in EUR million) 51 +2%
EBITA (in EUR million) 97 +7%	**EBITA %** (% of revenue) 13.3 (2016: 13.0)

niche technologies & brands

aalberts heat treatment	HAUCK HEAT TREATMENT
aalberts surface treatment	AHC SURFACE TREATMENT; IMPREGLON
aalberts specialised manufacturing	METALIS; MIFA

end markets

automotive	general industries	power generation, aerospace

operational developments – material technology

Niche technology **heat treatment** performed well in almost all regions and end markets. The volumes were on a good level. We further expanded our capacity in North America and Eastern Europe and started several greenfields. In Southern Europe we further consolidated our service locations.

Our activities in **surface treatment** did also well. Especially in the end market Automotive we faced good circumstances. The ramp up of the greenfields is making good progress. Several service locations were improved during the year. Many Operational Excellence projects are in progress to further improve efficiency.

The **specialised manufacturing** activities related to complex precision stamping performed well in almost all regions, especially France showed good growth.

In cooperation with our Key Accounts we started many R&D projects for the electrification of vehicles in combination with autonomous driving.

The precision extrusion activities for the General Industries and Aerospace end market continued on a good level. The long-term business plan was further executed. Our technology portfolio improved through further consolidation of locations.

The precision machining for turbines faced low activity in the OEM business, partly compensated with new business in the repair market.

Our new initiatives on additive manufacturing in combination with post treatments, resulted in the first orders.

in EUR million	2017	2016	Δ
revenue	733.9	699.2	5%
operating profit (EBITA)	97.3	90.6	7%
EBITA as a % of revenue	13.3	13.0	0.3
CAPEX	51.2	50.1	2%

strategy in action

vertical integration in the supply chain

Aalberts engineers mission-critical technologies for groundbreaking industries and everyday life. In extrusion technology (forming profile lengths by heating aluminum until in soft condition, then pressing it through a die) we are an industry leader when it comes to precision, complexity and material use. Aluminum profiles are ubiquitous wherever you find movement, the machine build, automotive and aerospace industry are excellent examples.

One of our significant accomplishments has been adding a number of complementary technologies to extrusion. We don't just produce profiles, we deliver client specific products by integrating cutting, machining, bending, as well as surface treatments and assembly operations.

We face a clear market shift towards 'vertical integration' within the supply chain, the desire to have as many parts of the production process taken care of by just one partner. Our Aerospace customers clearly benefit from the fact that we offer various technologies under one roof. Clients generally possess less in-house knowledge and therefore increasingly rely on partners with a high knowledge level.

climate technology

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

key figures

revenue (in EUR million) 524 +4%	**capex** (in EUR million) 7 (23%)
EBITA (in EUR million) 62 +15%	**EBITA %** (% of revenue) 11.9 (2016: 10.8)

niche technologies & brands

aalberts hydronic flow control — Flamco

aalberts thermal & sanitary efficiency — COMAP

end markets

commercial buildings

residential buildings

operational developments – climate technology

Niche technology **hydronic flow control** delivered good organic growth in almost all regions, except in Russia where we still faced challenging circumstances. With several Key Accounts we expanded our offering during the year. With several others we are in discussion to offer more integrated hydronic flow control system solutions.

We continued to integrate and optimise our joint marketing and sales approach in combination with the execution of Operational Excellence projects. Also a long-term business plan, including innovation roadmap was finalised in combination with additional investments to improve the efficiency and to facilitate the growth potential for the coming years.

We started pilots to develop digital solutions making our products and systems connected and utilise the data to improve the system performance of our customers. A digital centre and team were created to accelerate these business opportunities.

in EUR million	2017	2016	Δ
revenue	523.8	501.8	4%
operating profit (EBITA)	62.3	54.0	15%
EBITA as a % of revenue	11.9	10.8	1.1
CAPEX	6.5	8.4	(23%)

Our **thermal & sanitary efficiency** activities also performed well. In many regions we realised good growth, especially in France. We defined a long-term business plan and an innovation roadmap for the coming years to reach a higher added value. The approach will be focused on the development of water treatment and dispense, thermal control solutions and plastic connection systems. To realise this we are implementing an investment plan for new product lines and improved production technology.

Also the product portfolio and branding was more aligned to achieve a higher added value offering. The execution of the innovation roadmap started, including pilots to develop digital connections and data collection, creating new business models.

strategy in action

system pressure re-engineered

In 2017 the New Karolinska Solna (NKS) university hospital was opened in Sweden.

The impressive building with 8,000 rooms for patients, 36 rooms for surgery and 6,000 employees is environmental certificated LEED Gold. For contractor Skanska, this is the largest PPP project (Public-Private Partnership) ever built.

The 12 story NKS building has several sophisticated heating and cooling systems to keep up with high demands for both controllability, efficiency and redundancy.

Initially, the system was commissioned without Aalberts degassers. It turned out that the originally installed degassing units could not deal with the high pressure in this large and complex system.

A close partnership and re-engineering process resulted in an alternative system specification. Aalberts hydronic flow control successfully delivered and commissioned over 30 Vacumats ECO 9000, resulting in an efficient and optimal performing system.

industrial technology

industrial technology engineers and manufactures (custom made) solutions for specific niche applications to regulate and control gasses and liquids under often severe and critical conditions and co-develops and integrates specialised manufacturing technologies.

key figures

revenue (in EUR million) 363 +16%	**capex** (in EUR million) 17 +107%
EBITA (in EUR million) 54 +18%	**EBITA %** (% of revenue) 15.0 (2016: 14.8)

niche technologies & brands

- aalberts fluid control — BROEN, VENTREX
- aalberts dispense technologies
- aalberts advanced mechatronics

end markets

- semicon & science
- district energy, gas
- beverage dispense
- automotive
- general industries

operational developments – industrial technology

Within our niche technology **fluid control** we still faced difficult circumstances for the Oil end market. We focused more on our District Energy and Gas activities, where positive market developments in several countries resulted in good growth.

Especially in Asia we made progress with our new set up and organisation. We launched our new patented range of full flow valves end of the year, after ramping up our automated manufacturing in Denmark.

In the Automotive and General Industries end markets we made a good year. We invested in additional capacity for engineering to accelerate our innovation roadmap for the coming years. Also we are in the process to further align and optimise our manufacturing locations.

Our activities in **dispense technologies** in the Beverage Dispense end market faced a difficult year, due to delay of projects of some major customers.

We continued to align the global business, including VIN SERVICE, acquired at the beginning of the year. In the second half of the year we started to further consolidate our facilities in North America. With several Key Accounts we are in discussion to offer a more complete and integrated dispense system solution. We strengthened our engineering team worldwide to accelerate organic growth and innovations.

Our niche technology **advanced mechatronics** made an excellent year. We realised an exceptional organic growth in the Semicon & Science end market.
Also we made preparations and pre-investments for the increased orderbook and additional projects, announced in the beginning of the year.
The organisation was further aligned, including PNEUTEC acquired in July 2017. We made additional investments to facilitate the many growth initiatives.

in EUR million	2017	2016	Δ
revenue	362.9	312.3	16%
operating profit (EBITA)	54.4	46.2	18%
EBITA as a % of revenue	15.0	14.8	0.2
CAPEX	17.4	8.4	107%

strategy in action

mechanical valves with digital functionalities

With an ongoing increase of respiratory diseases (COPD) and growing preference for home treatments, there is a strong need for product innovations in the global market for medical oxygen systems. Besides providing life support, these systems ease shortness of breath and improve sleeping patterns.

A change in patient lifestyles and a growing need for home healthcare concepts push the demand for portable oxygen systems. Aalberts fluid control, with already a strong footprint in mechanical valves, is determined to fulfil data driven requirements by adding functionality to its existing valve portfolio. What looks like a simple cylinder and valve at first glance, will incorporate features to increase control and value of our customer's products.

Internet of Things (IoT) provides us with great opportunities to extend the functionality of our existing valve portfolio. The integration of new features, like sensors, wireless communication and visualisation capabilities, enables continuous and remote supervision of cylinders, creates new business models and adds value to customers and end users.

Using the Aalberts strengths enables us to engineer lightweight and compact solutions to optimise mobility aspects, while integrating efficient energy supply and sensor technology to bring safe and user friendly innovations to OEMs, hospitals and end users. Conversations with existing and potential customers clearly indicate business potential.

As a leading technology company, Aalberts is fully aware of its responsible role and aims to have a positive impact on society by engineering and manufacturing sustainable products and services for various aspects of society. A substantial part of our mission critical technology offering contributes to the combat against the adverse effects of climate change. Our climate technology and installation technology portfolio and services enable our end users to save energy and water leading to eco-friendly buildings. By developing and manufacturing mission critical technologies and providing surface treatments for electrical cars we contribute to the transition towards electrification of vehicles. As part of the challenges and opportunities of climate change, we also take responsibility with respect to raw material scarcity. For example, our heat and surface treatments lead to lifetime extension of materials, and the focused application of additive manufacturing reduces material usage.

Besides providing sustainable solutions, Aalberts takes its responsible role as a leading technology and manufacturing company. Sustainable profitable growth goes hand in hand with a sustainable approach of doing business. We endorse the OECD and ILO guidelines concerning responsible business conduct. To integrate our responsibility into day-to-day operations, we have developed a pragmatic sustainability framework. Ongoing interactions with the group companies enable us to share best practices. Sustainability is also integrated in the Executive Team and business team meetings and in the Operational Excellence programme. Some of our group companies conform their sustainable management behaviours to the ISO 26000 standard.

sustainability framework

health & safety	environment	integrity

health & safety

safe place to work

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

We continuously invest in a culture in which people know what their responsibility is to make Aalberts a safe place to work. Our policy also focuses on improving procedures at all group sites that do not perform at the group average according to the KPIs set.

In order to further improve performance, health & safety is included in our Operational Excellence programme. Best practices are being shared ongoingly to improve health & safety practices and to decrease the differences in performance between our operations. Moreover, the safety management systems are in accordance with the OHSAS 18001 standards and safety policies and manuals are in place at our production locations.

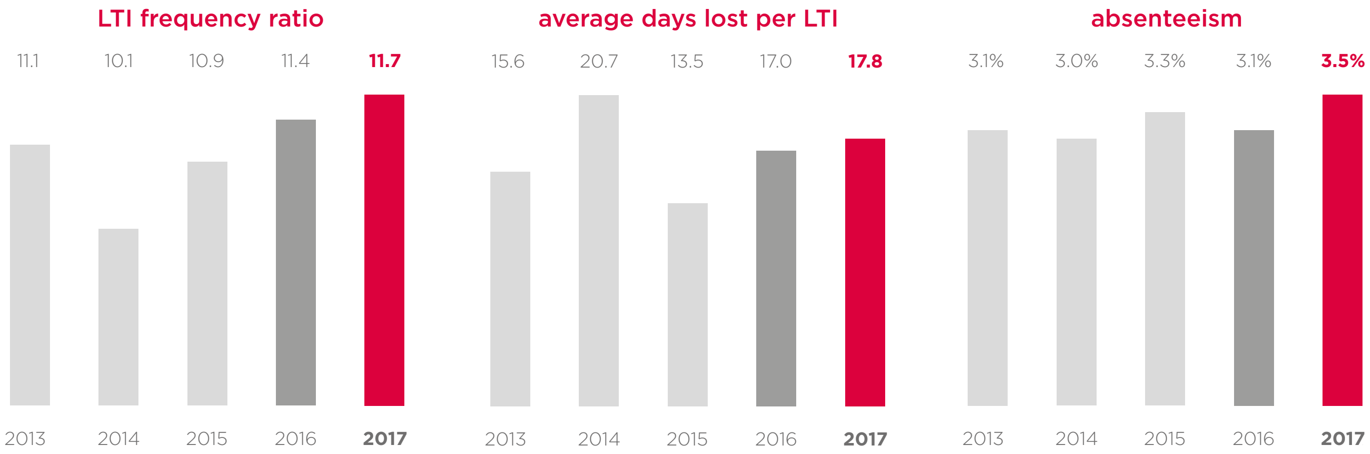
health & safety performance indicators

We set clear health & safety KPIs to monitor performance.

In 2017 our LTI Frequency Ratio (the number of lost time injuries per one million working hours) slightly increased to 11.7, the Average Days Lost per LTI was 17.8, and the absenteeism rate 3.5%.

health & safety improvements

5S lean manufacturing is being implemented in our Belgian company to improve efficiency, productivity and also safety and employee engagement. A risk assessment is made for all machinery and tooling based on the parameters safety exposure, severity, likelihood and preventability thereby further increasing the employee engagement. As a result, the LTI Frequency Ratio dropped with 33% in 2017 and local management is committed to further improve the H&S performance.



Worldwide our absenteeism rate is well below the national average and well below the industry average in the countries where we operate. Since we started measuring our health & safety KPIs in 2010, we had no fatalities.

The KPIs displayed above show our performance over the last five years.

product safety and quality

Aalberts manufactures and delivers high quality products and services. Our group companies are ISO 9001 quality management standard certified and have additional industry specific certifications, such as ISO 16949 for coatings or AS 9100 for the aerospace industry. Quality and product safety policies and statements are in place at local level. Our group companies manage risks from chemicals or hazardous substances and provide safety information on the substances in accordance with REACH and RoHS.

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

environment

This pillar focuses on eco-friendly buildings, sustainable transportation and lifetime extension of materials. We take responsibility for our own use of natural resources and provide solutions for natural resource scarcity with our sustainable products and services.

Most of our group companies have their environmental management systems certified in accordance with the ISO 14001 standard and some also in accordance with the ISO 50001 standard.

eco-friendly buildings

Global developments as climate change and urbanisation reinforce the need for energy efficiency and water savings in buildings. Our hydronic flow control and thermal & sanitary efficiency technologies provide a wide portfolio of products and services enabling our end users to save energy and water, leading to eco-friendly buildings. We supply and engineer solutions for heating and cooling which enable our customers to perfectly adjust heating systems and air conditioning units to obtain maximum energy efficiency in buildings. We continuously improve our products and find solutions to improve the performance of cooling and heating systems, such as air and dirt separators and degassing and top up automats.

We empower the energy transition by supplying and engineering products for district heating and accessories for the generation of solar energy, such as a universal mounting system for solar panels and expansion vessels designed for solar powered installations. We also offer a wide range of

degassers to improve the performance of heating and cooling systems

The quality of the water determines the performance of heating and cooling systems. A gaseous water system works less efficient. Gases can form or penetrate into a system in various ways, which reduces heat transfer. From these gases, oxygen directly leads to corrosion of the system, forming sludge. In turn, this produces resistance losses, additional wear and tear, unnecessary faults, disruption to the systems, reduced pump performance and irritating noises.
Consequences: a lack of comfort, unnecessary loss of energy and a shorter service life of the system.
To prevent these consequences, we engineered the Vacumat Eco degasser which degasses extremely accurate and effective. A prescribed gas level according to VDI 4702-2 can be achieved easily and is checked continuously by the unique monitoring method afterwards.

products focusing on the improvement of quality of water and efficient water usage. Our products enable customers to acquire eco-friendly energy labels for residential, commercial or industrial buildings, such as a Leadership in Energy and Environmental Design (LEED) certificate in the United States.

sustainable transportation

Developments as climate change and natural resource scarcity ask for a transition towards sustainable transportation. We contribute to this transition by providing mission-critical technologies for the electrification of vehicles. From valve engineering for battery cooling to surface treatments for electrical car parts. With our CNG technologies for the automotive industry we empower a significant CO_2 reduction in transportation.

lifetime extension materials

We extend the lifetime of various metals by a range of heat and surface treatments for our customers. We partner with leading (industrial) customers worldwide at the engineering and design phase to integrate our treatments in their manufacturing processes. This has a severe positive impact on the product quality and reliability plus the entire lifetime of the manufactured parts (from service to disposal of metal ending up in landfills). It goes without saying that we also apply these mentioned lifetime improvements to all of our products and innovations.

Components that are both strong and light are of great importance in many markets, such as automotive and aerospace. We develop and produce high-tech, lightweight aluminium and magnesium components for these industries and also extend the lifetime with heat and surface treatments.

lightweight materials for the aerospace industry

More and more aerospace manufacturers are looking into the potential of using magnesium in aircraft with a view to reducing CO_2 emissions. One of our precision extrusion companies started first trials involving magnesium extrusion and investigated the feasibility of this technology about twenty years ago. At the time, magnesium extrusion was still too complicated and expensive. Thanks to our innovations, new technologies and continuous drive to improve, we are now able to develop and produce magnesium components for the aerospace industry. As the components are much lighter than components from other materials they contribute to cleaner air transport and a reduction in CO_2 emissions.

reduce, reuse, recycle

Most Aalberts companies use sustainable lifecycle concepts as a common thread in their services. To use materials as efficiently as possible, reusing and recycling are key focus areas of Aalberts' environmental policy. We coordinate the sourcing of key raw materials at the head office. This enables us to ensure sustainable sourcing, to manage the efficient usage of raw materials and the effective recycling of scrap. We generate as little waste as possible by conserving and recycling water and chemicals and substituting hazardous substances.

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

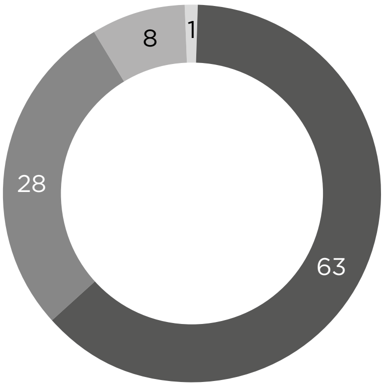
efficient energy consumption

In 2017, a community solar farm was established at the property of one of our North American facilities. The solar farm has 1,008 panels and can produce about a maximum of 250 kWh per day. The solar power generated by the solar farm is partly used by our facility and partly by the local community.

Some group companies incorporated eco-design guidelines in our product design and manufacturing process to reduce the use of raw materials and energy in the process. We also reduce the use of raw materials by applying additive manufacturing in our production process. The circular economy concept is integrated in the design process of many of our products to make sure that they can be reused at the end of their lifetime. Reducing also means taking responsibility for our own CO_2 footprint and water use. We measure the energy and water consumption of our entire organisation as from 2017.

carbon emissions

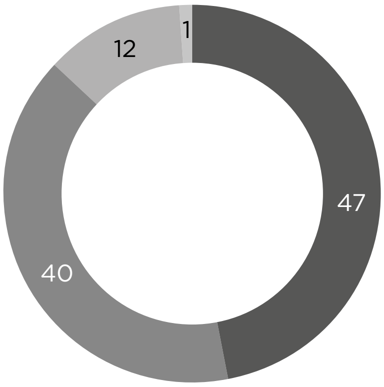
(total 341 Ktonnes)



- electricity **63%**
- gas **28%**
- district heating **8%**
- fuel **1%**

energy usage

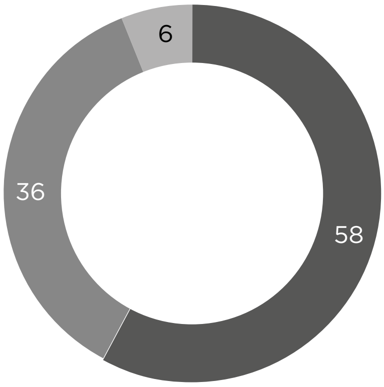
(total 4,243 TJ)



- electricity **47%**
- gas **40%**
- district heating **12%**
- fuel **1%**

water consumption

(total 2.1 million m³)



- drinking water **58%**
- groundwater **36%**
- surface water **6%**

The graphs above represent our carbon emissions, energy usage and water consumption. It shows that the overall majority of our water consumption is drinking water.

Our carbon emissions and energy usage primarily consists of electricity and natural gas. We will continue to measure our energy usage, water consumption and the corresponding carbon emissions in the future.

integrity

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

code of conduct

The company is proud of its excellent reputation as a responsible and reliable employer and business partner. The Code of Conduct of Aalberts contains seven main business standards as rules of ethical conduct all Aalberts employees must follow, including business integrity. The themes around business integrity concern strict compliance with fair competition laws, compliance with economic sanctions and export control regulations, compliance with anti-bribery laws, prevention of fraud, avoidance of conflict of interest, accurate accounting and reporting and compliance with insider trading rules. More information can be found at aalberts.com/code.

Our Speak up! procedure enables our employees to report violations of the Code of Conduct or other misconduct. All Speak up! notifications are promptly investigated and the relevant cases are reported to the Management Board and Supervisory Board. The Code of Conduct is integrated into the employment agreements of all senior staff and management throughout the group. Guidance and the roll out of both the Code of Conduct and the Aalberts integrity academy are effected through our worldwide governance network.

We check compliance with the Code of Conduct with regular governance visits by the governance department together with a governance contact person from the particular business.

Aalberts integrity academy

In 2017, we developed and implemented additional e-learning modules for the Aalberts integrity academy, an e-learning portal covering the Code of Conduct and specific business integrity matters, such as competition laws, anti-bribery laws and our Speak up! procedure. This e-learning is mandatory for all our key employees in finance, human resources, operations, purchase, sales, general management and management staff. In 2018, we will develop and implement additional e-learning modules.

anti-corruption and bribery

Our anti-corruption and bribery policy is included in our Code of Conduct and signed off by all our key employees. We performed a risk assessment within our organisation to assess which employees should be obliged to take the anti-corruption and bribery e-learning module of the Aalberts integrity academy. In this e-learning module employees are trained on our policies and risks per region. Approximately 20% of all employees were designated and 99.9% of these employees completed this e-learning module. Our company has several additional anti-corruption and bribery initiatives, including:

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

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

supply chain management

To further improve sustainability throughout the entire value chain we partner with suppliers who live by the same main principles as our Code of Conduct (safe place to work, respect human rights, treating employees with respect and work in an environmentally friendly way).

In 2017 we implemented our Supplier Code of Conduct, which includes the principles of the Code of Conduct and the principles of the UN Global Compact and the OECD. We contractually bind our suppliers to adhere to the principles of our Supplier Code of Conduct. Numerous key suppliers have contractually agreed to adhere to these principles. In 2018 we will further improve the coverage on our supplier base.

human rights & labour relations

Aalberts commitment to respecting human rights, as defined by the United Nations in its Universal Declaration of Human Rights, is laid down in a formal human rights policy. We support the principles laid down in the OECD Guidelines for Multinational Enterprises and those in the ILO Declaration on Fundamental Principles and Rights at Work. Aalberts wants to build long-term, sustainable relationships with its employees and therefore strives to pay fair salaries and benefits. We respect the rights of our employees to organise in unions and to collectively negotiate fair wages and working conditions. At Aalberts, the principle of free choice of employment is inviolable. It applies to every employee in every country we operate. In 2017 we had no reports or evidence of any human rights violations or abuses via our Speak up! procedure.

respecting diversity

Aalberts recognizes and respects the differences between individuals and understands that these differences can include ethnicity, religion, nationality, age, gender, sexual orientation, physical ability, experience and perspective. Recruiting and developing a diverse workforce gives us a wide range of perspectives and allows us to explore and adopt new ideas and innovations in technology. It also allows us to better understand and meet the needs of our diverse customers and communities. At year-end, 25.4% of our workforce were women. In every area, we encourage female applicants to apply for open positions within the organisation.

tax policy

A coherent and responsible tax policy is a key element of our sustainability strategy. Through discussions with investors, we have become aware that a responsible tax policy can be a decisive factor in the consideration whether or not to invest in a company. We have expressed our ambition to be transparent about our tax strategy.

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

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

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

labour training centre for refugees

In the past few years, Norway received an increasing number of refugees. The activity level of the assembly plant of our Norwegian group company grew to a higher level, so it was necessary to increase capacity. Together with the local labour office, a programme was developed for refugees, including language training on the job combined with education, for example in quality systems. The programme was also implemented for Norwegian young unemployed people, who work side by side with the refugees. During work time it is only allowed to speak Norwegian language, so that the refugees get practice. Through this project we give back to community and the participants are qualified for the Norwegian job market.

relentless pursuit of excellence

risk management

The nature of both our business and our strategy means that we face a number of inherent risks. We have carefully considered the type and extent of the inherent risks to the group achieving its objectives. These risks also include long-term emerging risks related to disruptive technologies and increased cyber threats as well as increasing uncertainties that can change the (geo)political and economic landscape. Aalberts' spread in businesses, technologies, end markets and geographical regions limits our dependence on specific markets or customers and strongly benefits our strategic objective to create sustainable and profitable growth as mentioned on page 15.

We have identified the following main potential risks, relating to our strategy and set out our actions to manage these risks as effective as possible:

relevant developments

Worldwide geopolitical developments

Increased customer and shareholder expectations

Increased regulations for companies and activities

Globalisation and co-development

Ongoing demand for talented managers and specialists

Internet of Things and increased connectivity

Climate change and raw material scarcity

strategic

Wider use of Aalberts brand can increase vulnerability for reputational risk

Rapidly changing market dynamics can require fast adaptability and innovation

Disruptive technologies can impact current business models

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

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

financial

Inconsistent or delayed reporting process can lead to inappropriate decision taking

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

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

Impact of volatile commodity prices and raw material scarcity

Aalberts strategy 2018-2022 'focused acceleration'

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

operational

Growth can lead to inefficient processes and less control over organisation

Insufficient number of talented managers and specialists can slow down company growth

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

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

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

legal & regulatory

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

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

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

Undesired or unethical employee behaviour can lead to fraud related matters

Product failures and quality issues can result in liability proceedings

strategic actions

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

operational actions

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

legal & regulatory actions

	started	in progress	continuous improvement	done
make business integrity matters standing topic in management meetings				•
organise quarterly meetings with worldwide governance network			•	
establish Aalberts integrity academy for e-learning				•
launch additional e-learning courses on business integrity matters	•			
realise full awareness for Code of Conduct, authorisation chart and Speak up! procedure			•	
implement Supplier Code of Conduct to ensure business integrity and human rights		•		
embed high level of quality assurance in manufacturing processes			•	
maintain insurance facilities for (product) liability risks			•	
implement central claim and proceedings handling process			•	

financial actions

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

risk appetite and sensitivity

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

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

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

risk management and control systems

Our businesses are responsible for maintaining an effective risk and control environment as part of day-to-day operations. This includes the risk management and control systems as set out above which are regularly updated to respond to the group’s changing risk profile. The risk management and control systems as set out above do, however, not provide absolute assurance that errors, fraud, losses, or unlawful acts can be prevented. During the 2017 financial year, no significant shortcomings were found in the internal risk management and control systems and no significant changes were made or scheduled for these systems, other than the further strengthening of the business management teams and the head office including governance, internal audit and global tax functions.

The internal risk management and control systems have been discussed with the Supervisory Board. These systems have been demonstrated to be adequate and they provide a reasonable degree of assurance that the financial reporting does not contain any material misstatements and that the risk management and control systems operated properly during the 2017 financial year.

good is never good enough

The Dutch Corporate Governance Code (*the "Code"*) has been revised in 2016 and entered into force per 1 January 2017. Dutch listed companies are required to report in 2018 on compliance with the revised Code in the 2017 financial year. Aalberts Industries N.V. endorses the principles of the revised Code.

On 22 April 2004, the General Meeting of Shareholders *(the "General Meeting")* approved the corporate governance structure of Aalberts. Since then there have been no substantial changes in the corporate governance structure of Aalberts, the special governance rules and regulations, or the compliance with the Code. In view of the revised Code, the Management Board and the Supervisory Board carefully reviewed and discussed the existing rules and regulations. The Management Board rules were updated and a diversity policy and a policy on bilateral contacts with shareholders were developed. In addition, the Supervisory Board rules and the articles of association of Aalberts (*the "Articles of Association")* were updated in line with the Code. The updated Articles of Association are to be adopted in the next General Meeting, as a result whereof the updated Supervisory Board rules will be formally effective. Aalberts virtually applies all best practice provisions of the Code. To a limited extent, these have been adjusted to specific circumstances of Aalberts. Guidance on detailing how Aalberts complies with the provisions of the Code is available at aalberts.com/governance. As a result, the Management Board believes it meets the principles of 'comply or explain'. All the regulations pursuant to the Code and Dutch law concerning reporting and transparency of information applicable to Aalberts have been incorporated into the management report.

The deviations from the Code relate to the following subjects.

management board

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

general meeting

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

company secretary

The nature and size of the group is such that the creation of the position of company secretary is not deemed necessary for the time being.

appointment and dismissal of management board and supervisory board

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

powers management board

The general powers of the Management Board are those arising from legislation and regulations and are set out in the Articles of Association. The Management Board was authorised by the General Meeting held on 18 April 2017 to issue ordinary shares, to grant rights to subscribe for ordinary shares and to restrict or exclude pre-emptive rights of existing shareholders in the case of issuing ordinary shares, all subject to approval of the Prioriteit. The authorisation has been granted for 18 months and is valid for a maximum of 10% of the issued share capital at the time of issuing. The Management Board was further authorised by the General Meeting held on 18 April 2017 to repurchase the company's own ordinary shares up to a maximum of 10% of the issued share capital, other than for no consideration. The authorisation has been granted for 18 months.

decision making and anti-takeover measures

The duties and powers of the General Meeting, the Supervisory Board, the Management Board and the Prioriteit have been defined in such a way that a well-balanced allocation has been achieved with respect to the control and influence of the company's individual bodies. By doing so, Aalberts has ensured as much as possible that, when essential decisions are made, the interests of all company's stakeholders are taken into account and that the decision-making process can always be conducted in a prudent manner.
According to provision 4.2.6 of the Code, the company is required to provide an overview of its actual or potential anti-takeover measures and to indicate in what circumstances it is expected that these measures may be used. The priority shares held by the Prioriteit may be considered to constitute a form of permanent anti-takeover measure. The powers of the Prioriteit have been described in this chapter and on page 101 under 'Special Controlling Rights under the Articles of Association'. The authority to make a binding nomination to the General Meeting concerning the appointment of members of the Management Board and Supervisory Board could be an essential instrument in the well-balanced decision-making process. Therefore, the deprivation of the binding character of the nomination is aligned with Dutch law instead of with the Code.

speak up!

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

insider trading

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

corporate governance statement

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

management board declaration

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

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

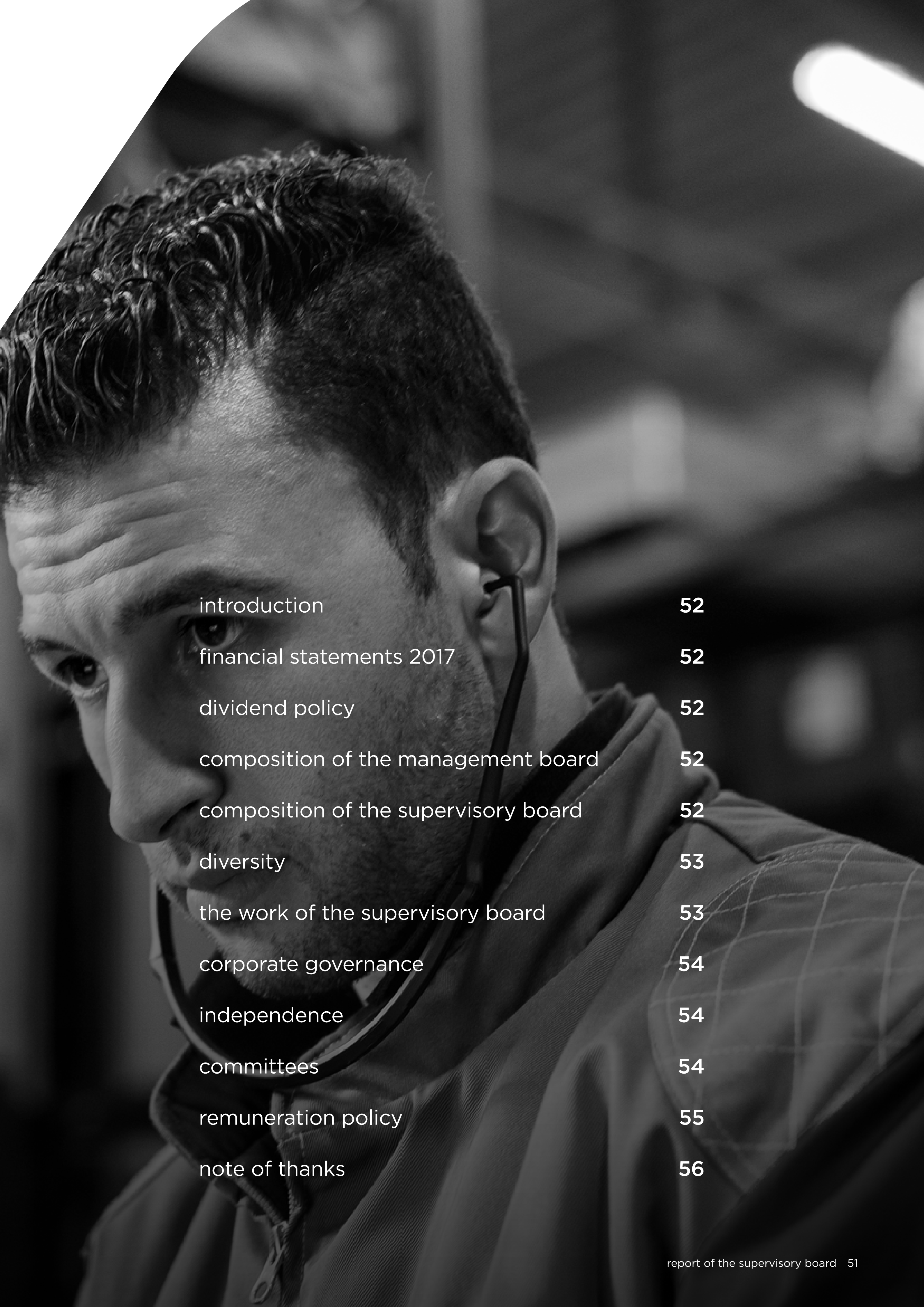
Langbroek, 27 February 2018

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

financial calendar 2018-2019

21 March 2018	registration date for general meeting
18 April 2018	general meeting
20 April 2018	quotation ex-dividend
23 April 2018	record date for dividend
16 May 2018	paying out dividend
26 July 2018	publication interim results 1H2018
26 February 2019	publication full year results 2018
17 April 2019	general meeting

report of the supervisory board



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introduction

The Supervisory Board is confident that Aalberts took the right steps in 2017 to allow the company to further grow and to implement its long-term value creation strategy. Cooperation between the various group companies has been intensified and makes a significant contribution to the expected further profitable growth. Next to the acquisition of companies to improve the portfolio, the organic growth was according to expectations. The Supervisory Board is satisfied by the performance of the Management Board and the employees.

financial statements 2017

The 2017 financial statements have been prepared by the Management Board and have been signed by the Management Board and the Supervisory Board. Page 102 of the financial statements includes the auditor's report from the independent auditor Deloitte Accountants B.V. (*"Deloitte Accountants"*). The Management Board will present the 2017 financial statements to the General Meeting.

The Supervisory Board advises the General Meeting to adopt these financial statements, including the proposed cash dividend of EUR 0.65 per share.

dividend policy

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

composition of the management board

The Management Board of Aalberts Industries N.V. consists of:

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

composition of the supervisory board

The composition of the Supervisory Board is in accordance with the profile drawn up, which is published on the website of Aalberts. The composition of the Supervisory Board changed in 2017.

Mr. H. (Henk) Scheffers retired by rotation and did not stand for re-election. Mr. M.C.J. (Martin) van Pernis took over the role as chairman of the Supervisory Board. Mrs. M.J. (Marjan) Oudeman was appointed as member of the Supervisory Board.

Newly appointed Supervisory Board member Marjan Oudeman was offered an introduction programme to become more familiar with the company. Individual meetings with Management Board members and Executive Directors provided insight into topics such as:

- the organisational and reporting structure;
- the Aalberts strategy;
- the different business models including sales, marketing and distribution channels;
- the risk management system and control framework; and
- internal and external audit.

Mrs. Oudeman made a site visit at MIFA in the Netherlands. The programme will continue with other visits and activities in 2018.

In 2017, steps were also taken to allow for the nomination of new members for the Supervisory Board who fit the profile.

composition of the supervisory board as of 18 April 2017

name	position	nationality	gender	year of birth	initial appointment	term expires
M.C.J. van Pernis	Chairman of the Supervisory Board Member of the Remuneration, Selection and Appointment Committee	Dutch	Male	1945	2010	2018
J. van der Zouw	Member of the Supervisory Board Chairman of the Remuneration, Selection and Appointment Committee	Dutch	Male	1954	2015	2019
P. Veenema	Member of the Supervisory Board Member of the Audit Committee	Dutch	Male	1955	2016	2020
M.J. Oudeman	Member of the Supervisory Board Chairman of the Audit Committee	Dutch	Female	1958	2017	2021

M.C.J. (Martin) van Pernis
Former President of Siemens Group in the Netherlands.
Other relevant positions:
Chairman Supervisory Board Batenburg Techniek N.V.
Vice chairman Supervisory Board and Chairman NSR Committee ASM International
Chairman Supervisory Board CM Payments Breda
Member Advisory Board G4S Netherlands
Chairman Supervisory Board Sacon B.V.
Chairman Habitat for Humanity The Netherlands
Chairman Supervisory Board Rotterdams Philharmonisch Orkest

J. (Jan) van der Zouw
Former Chairman Management Board Eriks Group N.V.
Other relevant positions:
Chairman Supervisory Board Van Wijnen Holding N.V.
Member Supervisory Board Masterflex S.E.
Chairman of the Supervisory Board LievenseCSO

P. (Piet) Veenema
Former Chairman Management Board of Kendrion N.V.
Other relevant positions:
Chairman Supervisory Board N.V. Juva
Member Supervisory Board Van Wijnen Holding N.V.
Member Supervisory Board M&G Holding B.V.
Member Advisory Board Egeria Industrials A.G.

M.J. (Marjan) Oudeman
Former member of the executive committee Corus Group (nowadays Tata Steel Group) and the executive committee of AkzoNobel
Other relevant positions:
Member Supervisory Board Statoil ASA
Member Supervisory Board SHV Holdings N.V.
Member Supervisory Board Solvay SA
Member Supervisory Board Concertgebouw N.V.
Member Supervisory Board Rijksmuseum
Member Supervisory Board Ronald McDonald Kinderfonds

diversity

In accordance with the new Code, the Supervisory Board has adopted a diversity policy for the composition of the Management Board and the Supervisory Board in 2017. The following diversity aspects have been identified as relevant for the Company and its business, considering the market in which the Company operates and the diversity of its customer base: (i) education/experience; (ii) nationality/cultural background; (iii) gender; and (iv) age.

The objectives of Aalberts' diversity policy are to maintain a sound balance of nationality and cultural background within the Supervisory Board and the Management Board, to increase the gender diversity within the Supervisory Board and the Management Board, such that at least 30% of the Supervisory Board and the Management Board will consist of women and at least 30% of the Supervisory Board and the Management Board will consist of men and to increase the age diversity within the Supervisory Board and the Management Board. In 2017, Aalberts further applied the policy by recruiting (female) candidates for a Supervisory Board position with different backgrounds and of various ages. This recruitment process positively resulted in the nomination and appointment of Mrs. Oudeman as first female member of the Supervisory Board.

Currently, the Management Board consists entirely of men. Three members of the Management Board are Dutch citizens and the member who joined in 2014 has German nationality. In 2017, the General Meeting appointed a new member of the Management Board. The education and experience of the new member increases the diversity on this aspect within the Management Board, but the gender diversity remained unchanged for the Management Board. For the Management Board position, we looked for possible strong female candidates. However, no available female candidates of equal suitability were found. The capabilities of potential candidates are most important in this respect. Aalberts will continue its efforts to increase the gender diversity within the Management Board by taking into account gender diversity for recruitment, talent development, appointment to roles, attraction and retention of employees, mentoring and coaching programmes, succession planning, training and development.

the work of the supervisory board

The Supervisory Board convened on six occasions; the attendance rate of Mr. Van Pernis, Mr. Van der Zouw and Mr. Veenema for the Supervisory Board meetings and meetings of the committees they form part of was 100%. Mrs. Oudeman, who was appointed as Supervisory Board member in the second quarter of 2017, has an attendance rate of 50% for the Supervisory Board meetings and an attendance rate of 100% for meetings of the Audit Committee. No members were frequently absent. Since the Supervisory Board wants to monitor the company activities closely from its supervisory position, these meetings are regularly held at one or more group companies. In the year under review, these were MIFA and Mogema in the Netherlands.

The Chairman of the Supervisory Board regularly met with the Chief Executive Officer to discuss the business progress and the composition of the Management Board, as well as to prepare for the meetings with the Supervisory Board.

The subjects discussed with the Management Board include overall business progress, financial and operational developments, interim results and annual financial statements, and the dividend policy. The strategy for the period from 2015 to 2018 was further discussed and evaluated, with a special focus on the acquisition policy, capital allocation and branding. In consultation with the Supervisory Board, the Management Board updated the strategy for the period from 2018 to 2022: 'focused acceleration'. The strategy update is in line with the view of the Management Board on long-term value creation by the company. The Supervisory Board refers to page 14 for a more detailed explanation of the focused acceleration strategy. The business risks and the risk appetite, governance risks, internal risk management and control systems, the organisational structure, developments in the human resources development policy, compliance with laws and regulations, and sustainability have also been extensively discussed.

The Supervisory Board is pleased to note that Aalberts has been able to continue the upward trend of previous years in 2017. Encouraging progress was recorded in the year under review with respect to cost control and working capital management, revenue, profit and added value. The Supervisory Board approved the strategy and objectives to be achieved for 2018-2022.

corporate governance

In view of the new Code, the Supervisory Board has reviewed and discussed the corporate governance structure of Aalberts with the Management Board. As the governance structure has not substantially been changed since 2004, it was agreed to update the governance structure of Aalberts as much as possible in line with the new Code, Dutch corporate law and market practice. The Supervisory Board refers to page 48 for a more detailed explanation of the updated corporate governance structure of Aalberts.

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

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

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

independence

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

no conflict of interests

In 2017, there were no conflicts of interests between the company and members of the Management Board or members of the Supervisory Board. Nor were there any transactions of material significance in 2017 between the company and natural persons or legal entities that hold at least 10% of the shares in the company.

committees

In view of a further improvement of Aalberts' corporate governance and in compliance with the Code, the Supervisory Board has established two committees in 2017: the Audit Committee and the Remuneration, Selection and Appointment Committee.

audit committee

The Audit Committee assists the Supervisory Board in its responsibility to supervise the integrity and quality of the Aalberts' financial reporting and the effectiveness of Aalberts' internal risk management and control systems. The Audit Committee consists of Marjan Oudeman (Chairman) and Piet Veenema.

The role of the Audit Committee is described in its charter, which is part of the Supervisory Board Rules to be formally effective after the General Meeting of Shareholders in 2018 and available at aalberts.com/governance. As from its establishment mid-2017, the Audit Committee already acted in accordance with the charter. During the year, the Audit Committee met three times with the Director Internal Audit and the CFO and in one meeting the external auditor Deloitte Accountants was present. At least once a year, the Audit Committee consults with the external auditor outside the Management Board's presence. Audit Committee discussions include: the company's financial reporting including the application of accounting principles, the company's financial performance, the company's internal risk management systems, the work schedule of internal audit, the audits performed and the essence of the audit results, the Speak up! procedure, the annual report and financial statements, and the quarterly progress reports prepared by the Management Board.
The Audit Committee discussed the external auditor's performance with the Management Board without the presence of Deloitte Accountants. The Audit Committee reported to the Supervisory Board on its deliberations and findings which were discussed by the Supervisory Board.

remuneration, selection and appointment committee

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

The role of the RemCo is described in its charter, which is part of the Supervisory Board Rules to be formally effective after the General Meeting of Shareholders in 2018 and available at aalberts.com/governance.

As from its establishment mid-2017, the RemCo acted already in accordance with the charter. During the year, the RemCo met one time. RemCo discussions included: the remuneration policy, the short and long-term targets for the Management Board and the search for an additional member of the Supervisory Board.

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

The evaluation of the Supervisory Board and its individual members took place by way of a special meeting. Each of the members were evaluated as well as the functioning of the total Supervisory Board. Also, the communication with the management and the question of succession were discussed. In addition, the Chairman held interviews with the Supervisory Board's individual members. Because the committees were introduced in the summer of 2017, the first evaluation will take place in the course of 2018.

Outside the Management Board's presence, the Supervisory Board evaluated and assessed the performance of the Management Board and that of the individual members of the Management Board. In the opinion of the Supervisory Board, the Management Board performed its duties in 2017 in an excellent way.
The evaluation of the Management Board and its individual members took place by way of individual meetings with the Management Board as a total and with the individual members. Themes as communication with the Supervisory Board, individual targets, cooperation within the Management Board, strategy towards stakeholders, as well as potential company risks were discussed.

external auditor
Deloitte Accountants was appointed external auditor for the reporting year 2018 at the General Meeting on 18 April 2017. In the discussion of the interim results and annual financial statements, the Supervisory Board was informed by the external auditor, Deloitte Accountants. Topics discussed included the 2017 audit plan, the management letter, early warning reports and the year-end Supervisory Board and Management Board report.

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

Scenario analyses have been performed in conformity with the Code and have been taken into account by setting the remuneration. The aim is to achieve a good balance between fixed and variable remuneration and short-term and long-term remuneration. More information is provided on page 99 of the notes to the financial statements.

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

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

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

The remuneration of the Management Board members is disclosed in note 34.9 of the financial statements. For the calculation of the pay ratio as prescribed by the Code, the average annual compensation for the Management Board members is based on salary, pension contribution and variable remuneration (short-term) and excludes the Performance Share Plan.

As a result, the pay ratio in 2017 was 21.1 (2016: 22.5).

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

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

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

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

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

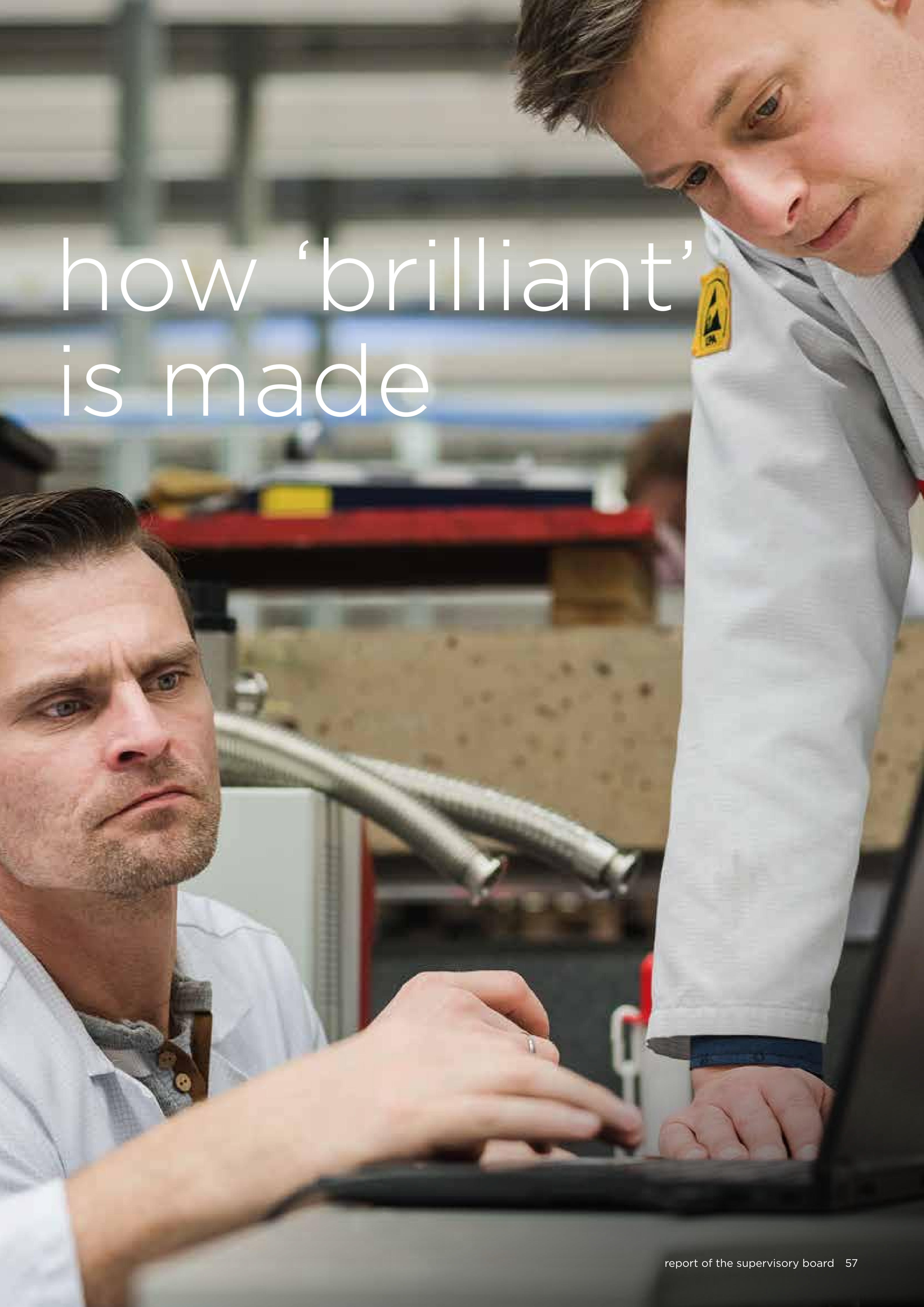
update
Each year, the Supervisory Board reviews the Management Board remuneration policy and assesses its alignment with the market in more detail. Any update of this policy will be submitted to the General Meeting.

note of thanks

the Supervisory Board would like to express its gratitude to the members of the Management Board and all employees of Aalberts for their efforts and dedication in 2017.

Langbroek, 27 February 2018

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



how ‘brilliant’ is made

financial statements 2017

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1. Consolidated balance sheet (before profit appropriation)

in EUR million	Notes	31-12-2017	31-12-2016
ASSETS			
Intangible assets	10	1,126.6	1,128.2
Property, plant and equipment	11	774.9	761.5
Deferred income tax assets	17	14.7	13.4
Total non-current assets		**1,916.2**	**1,903.1**
Inventories	12	556.8	521.1
Trade receivables	13	353.1	346.6
Income tax receivables		3.5	4.3
Other current assets	14	37.3	42.6
Cash and cash equivalents	16	43.5	40.9
Total current assets		**994.2**	**955.5**
TOTAL ASSETS		**2,910.4**	**2,858.6**
EQUITY AND LIABILITIES			
Shareholders' equity	4	1,490.3	1,373.1
Non-controlling interests	4	22.4	18.0
Total equity		**1,512.7**	**1,391.1**
Non-current borrowings	16	414.1	461.2
Employee benefit plans	18	71.6	84.6
Deferred income tax liabilities	17	110.4	122.7
Other provisions and non-current liabilities	18	44.2	37.8
Total non-current liabilities		**640.3**	**706.3**
Current borrowings	16	63.2	202.5
Current portion of non-current borrowings	16	134.8	90.3
Trade and other payables	19	378.4	309.5
Income tax payables		40.3	22.2
Other current liabilities	20	140.7	136.7
Total current liabilities		**757.4**	**761.2**
TOTAL EQUITY AND LIABILITIES		**2,910.4**	**2,858.6**

2. Consolidated income statement

in EUR million	Notes	2017	2016
REVENUE	9	**2,694.0**	**2,522.1**
Raw materials and work subcontracted		(1,015.6)	(953.1)
Personnel expenses	21	(781.7)	(733.2)
Depreciation of property, plant and equipment	11	(86.9)	(93.7)
Amortisation of intangible assets	10	(33.7)	(29.9)
Other operating expenses	22	(474.3)	(444.0)
Total operating expenses		**(2,392.2)**	**(2,253.9)**
OPERATING PROFIT		**301.8**	**268.2**
Net interest expense	23	(16.7)	(16.6)
Foreign currency exchange results	23	(5.3)	(4.3)
Derivative financial instruments	23	(0.3)	3.2
Unwinding discounts on provisions	23	(1.3)	–
Net interest expense on employee benefit plans	18/23	(1.8)	(2.3)
Net finance cost		**(25.4)**	**(20.0)**
PROFIT BEFORE INCOME TAX		**276.4**	**248.2**
Income tax expense	24	(68.0)	(62.4)
PROFIT AFTER INCOME TAX		**208.4**	**185.8**
Attributable to:			
Shareholders	4	204.5	182.6
Non-controlling interests	4	3.9	3.2
Earnings per share (in EUR)			
Basic and Diluted	25	1.85	1.65
Earnings per share before amortisation (in EUR)			
Basic and Diluted	25	2.15	1.92

3. Consolidated statement of comprehensive income

in EUR million	2017	2016
Profit for the period	**208.4**	**185.8**
Other comprehensive income:		
Remeasurements of employee benefit obligations	8.9	(11.9)
Income tax effect	(1.6)	2.0
Other comprehensive income that will not be reclassified to profit or loss	**7.3**	**(9.9)**
Currency translation differences	(34.5)	(10.3)
Fair value changes derivative financial instruments	2.9	(1.1)
Income tax effect	(0.7)	0.9
Other comprehensive income that may subsequently be reclassified to profit or loss	**(32.3)**	**(10.5)**
Total other comprehensive income for the year, net of income tax	**(25.0)**	**(20.4)**
TOTAL COMPREHENSIVE INCOME/(LOSS)	**183.4**	**165.4**
Attributable to:		
Shareholders	178.9	162.7
Non-controlling interests	4.5	2.7

4. Consolidated statement of changes in equity

in EUR million	Issued and paid-up share capital	Share premium account	Other reserves	Currency translation and hedging reserve	Retained earnings	Share-holders' equity	Non-controlling interests	Total equity
AS AT 1 JANUARY 2016	**27.6**	**200.8**	**876.8**	**(2.2)**	**165.7**	**1,268.7**	**16.0**	**1,284.7**
Dividend 2015	–	–	–	–	(57.6)	**(57.6)**	(0.7)	**(58.3)**
Addition to other reserves	–	–	108.1	–	(108.1)	**–**	–	**–**
Share based payments	–	–	(0.4)	–	–	**(0.4)**	–	**(0.4)**
Transactions with non-controlling interests	–	–	(0.3)	–	–	**(0.3)**	–	**(0.3)**
Profit for the period	–	–	–	–	182.6	**182.6**	3.2	**185.8**
Other comprehensive income for the year, net of income tax	–	–	(9.9)	(10.0)	–	**(19.9)**	(0.5)	**(20.4)**
AS AT 31 DECEMBER 2016	**27.6**	**200.8**	**974.3**	**(12.2)**	**182.6**	**1,373.1**	**18.0**	**1,391.1**
AS AT 1 JANUARY 2017	**27.6**	**200.8**	**974.3**	**(12.2)**	**182.6**	**1,373.1**	**18.0**	**1,391.1**
Dividend 2016	–	–	–	–	(64.1)	**(64.1)**	(0.1)	**(64.2)**
Addition to other reserves	–	–	118.5	–	(118.5)	**–**	–	**–**
Share based payments	–	–	2.4	–	–	**2.4**	–	**2.4**
Transactions with non-controlling interests	–	–	–	–	–	**–**	–	**–**
Profit for the period	–	–	–	–	204.5	**204.5**	3.9	**208.4**
Other comprehensive income for the year, net of income tax	–	–	7.3	(32.9)	–	**(25.6)**	0.6	**(25.0)**
AS AT 31 DECEMBER 2017	**27.6**	**200.8**	**1,102.5**	**(45.1)**	**204.5**	**1,490.3**	**22.4**	**1,512.7**

5. Consolidated cash flow statement

in EUR million	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit	2	301.8	268.2
Adjustments for:			
Depreciation of property, plant and equipment	11	86.9	93.7
Amortisation of intangible assets	10	33.7	29.9
Result on sale of equipment		(1.1)	(2.0)
Changes in provisions		(1.9)	(9.4)
Changes in inventories		(52.4)	(2.4)
Changes in trade and other receivables		(11.7)	2.9
Changes in trade and other payables		71.7	1.6
Changes in working capital		**7.6**	**2.1**
CASH FLOW FROM OPERATIONS		**427.0**	**382.5**
Finance cost paid		(22.7)	(20.4)
Income taxes paid		(68.1)	(56.6)
NET CASH GENERATED BY OPERATING ACTIVITIES		**336.2**	**305.5**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	28	(41.0)	(121.5)
Disposal of subsidiaries	28	–	10.0
Purchase of property, plant and equipment		(111.2)	(109.7)
Purchase of intangible assets	10	(9.2)	(5.9)
Proceeds from sale of equipment		3.4	6.4
NET CASH GENERATED BY INVESTING ACTIVITIES		**(158.0)**	**(220.7)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from non-current borrowings	16	144.5	0.6
Repayment of non-current borrowings	16	(130.0)	(64.4)
Dividends paid	4	(64.1)	(57.6)
Cash flow to non-controlling interests		(0.1)	(2.7)
NET CASH GENERATED BY FINANCING ACTIVITIES		**(49.7)**	**(124.1)**
NET INCREASE/(DECREASE) IN CASH AND CURRENT BORROWINGS		**128.5**	**(39.3)**
Cash and current borrowings at beginning of period		(161.6)	(103.2)
Net increase/(decrease) in cash and current borrowings		128.5	(39.3)
Currency translation differences on cash and current borrowings		13.4	(19.1)
CASH AND CURRENT BORROWINGS AS AT END OF PERIOD		**(19.7)**	**(161.6)**
Cash		43.5	40.9
Current borrowings (excluding current portion of non-current borrowings)		(63.2)	(202.5)
CASH AND CURRENT BORROWINGS AS AT END OF PERIOD	16	**(19.7)**	**(161.6)**

6. General information

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

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

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

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

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

Aalberts Industries N.V. has been incorporated in Utrecht and is domiciled in Langbroek, the Netherlands. The consolidated IFRS financial statements of the Company for the year ended 31 December 2017 comprise the company and its subsidiaries ('the Group'). The financial statements were adopted by the Supervisory Board on 27 February 2018 and will be submitted for approval to the General Meeting on 18 April 2018.
The Management Board released the full-year results on 28 February 2018.

7. Summary of significant accounting policies

7.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

7.2 Basis for preparation

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

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

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

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

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

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

7.3 Application of new and revised international financial reporting standards

No new standards have become effective or have been adopted by the Group for the first time for the financial year 2017.
The following changes in the IFRS standards are effective from 1 January 2017.

IFRS	Topic	Effective date
Amendments to IAS 7	IAS 7 Disclosure Initiative	1 January 2017
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017

These changes do not have a material effect on the total equity attributable to shareholders or results of the Group.

- Amendments to IAS 7 Disclosure Initiative have been applied by the Group for the first time in the current year.
  The application of these amendments has had no impact on the Group's consolidated financial statements.

- The Group has applied the amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

- The Group has applied the amendments to IFRS 12 included in the *Annual Improvements to IFRSs 2014 -2016 Cycle* for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group.

  The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

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

IFRS	Topic	Effective date
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

- IFRS 9 (Financial Instruments) replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. The Group performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2017 and hedging relationships designated during 2017 under IAS 39.

  Based on the initial assessment, the Group does not believe that the new classification requirements, if applied at 31 December 2017, would have had a material impact on its accounting for trade receivables and loans or could have a material impact on impairment losses. Furthermore, the Group does not have an indication of any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at 31 December 2017. Initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group's current plan is that it will elect to apply the new requirements of IFRS 9.

  The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future.

  IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

- IFRS 15 (Revenue from Contracts with Customers) establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

  The core principle of IFRS 15 is that an entity should recognise revenue to represent the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:
  - Step 1: Identify the contract(s) with a customer
  - Step 2: Identify the performance obligations in the contract
  - Step 3: Determine the transaction price
  - Step 4: Allocate the transaction price to the performance obligations in the contract
  - Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group has performed an assessment of the impact resulting from the application of IFRS 15. The main findings relate to the major sources of revenues which are the following:
- Within Installation Technology, Climate Technology and the main part of Industrial Technology the revenue is related to the sale of goods. Revenue will be recognised for each separate performance obligation when control over the corresponding goods is transferred to the customer and in accordance with the applicable incoterms. This is comparable to the current situation under IAS 18.
- Within Material Technology and some parts of other businesses the Group is involved in performing several services under one contract. If the services under a single arrangement are rendered in different reporting periods then the consideration is allocated on a relative fair value basis between the different services. Revenue is currently recognised at a point in time since none of the criteria to recognise revenue over time are met. The customer can only benefit from the services rendered after company's performance and not when the performance is delivered. This accounting treatment will continue to be appropriate under IFRS 15.
- For some made-to-order product contracts within Industrial Technology, the customer controls the work in progress during manufacturing. When this is the case, revenue will be recognised as the products are being manufactured. This will result in revenue for these contracts being recognised over time. Furthermore, the Group considers that the input method currently used to measure the progress towards complete satisfaction of these performance obligations will continue to be appropriate under IFRS 15.
- Furthermore, even though IFRS 15 requires to identify every possible promised good or service in the contract, the Group has assessed to what extent the shipping and handling activities should be treated as a separate performance obligation under IFRS 15. The Group concluded that these shipping and handling activities are not considered to be treated as a separate performance obligation based on the following: (i) the moment of recognising shipping and handling expenses follows directly/shortly after the moment of revenue recognition and (ii) the amounts involved are immaterial from an individual performance obligation level.

The Group does not anticipate that the application of IFRS 15 will have a significant impact on the financial position and financial performance of the Group, except for providing more extensive disclosures on the Group's revenue transactions. Therefore, the Group intends to use the full retrospective method of transition to implement IFRS 15.

- IFRS 16 (Leases) introduces a single, on-balance lease sheet accounting model for lessees. The current standard (IAS 17) does not require recognition of any right-of-use asset or liability of future payments for these leases; instead certain information is disclosed as operating lease commitments in note 27. The new standard requires lessees to recognise a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the Group is currently assessing its potential impact. This will have an impact on the Group's consolidated financial statements because operational lease and rent commitments as disclosed in note 27 will no longer be treated as off balance sheet commitments. Instead the present value of these commitments should be recognised in the balance sheet using a discount rate equal to the applicable average interest rate. This will increase the debt and leverage of the Group. The operating lease expenses will be replaced with depreciation and interest expenses that will increase EBITDA and have an impact on net profit and ratios. Furthermore, extensive disclosures are required by IFRS 16. It is not practicable to provide a reasonable estimation of the financial effect until the Group completes the review.

Finally, the Group has not applied the following new and revised IFRSs that have been issued and are effective as of 1 January 2018:

IFRS	Topic	Effective date
Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions	1 January 2018
Amendments to IAS 40	Transfers of Investment Property	1 January 2018
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018

These changes are not expected to have a material effect on the total equity attributable to shareholders or results of the Group.

7.4 Basis for consolidation

7.4.1 Subsidiaries

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company and its subsidiaries. Control is achieved when the company:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

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

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

An overview of the Group companies is disclosed in note 29.

7.4.2 Business combinations

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

Any contingent consideration payable is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.
All identifiable intangible assets of the acquired company are recorded at fair value. Intangible assets are separately identified and valued. An asset is identifiable when it either arises from contractual or other legal rights or if it is separable. An asset is separable if it can be sold on its own or with other assets. The transferred payment is allocated across the fair value of all

assets and liabilities with any residual allocated to goodwill. Excess of the acquirer's interest in the net fair value of the acquired identifiable assets over the fair value of the payment is recognised immediately in the statement of comprehensive income.

Transaction costs incurred by the acquirer in relation to the business combination are not included in the cost price of the business combination but once incurred are recognised as a charge in the income statement unless they refer to the issue of debt instruments or equity instruments.

The accounting of non-controlling interests is determined per transaction. The non-controlling interests are valued either at the fair value on the acquisition date or at a proportionate part of the acquiree's identifiable assets and liabilities. If an acquisition is effected by consecutive purchases (step acquisition) the identifiable assets and liabilities of the acquiree are included at their fair value once control is acquired. Any profit or loss pursuant to the difference between the fair value of the interest held previously in the acquiree and the carrying amount is included in the statement of comprehensive income.

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

7.4.3 Intercompany and related party transactions

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

7.5 Segment reporting

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

7.6 Foreign currency transactions and translation

7.6.1 Functional and presentation currency

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

7.6.2 Transactions and balances

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

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

Currency exchange rates		1 British pound (GBP) = EUR	1 US dollar (USD) = EUR
2017	Year-end	1.125	0.833
2017	Average	1.141	0.885
2016	Year-end	1.172	0.950
2016	Average	1.225	0.904

7.6.3 Group companies

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

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

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

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

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

7.7 Intangible assets

7.7.1 Goodwill

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

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

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:
- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

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

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

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

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

7.8.2 Subsequent expenditure
The Group recognises in the net book amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs such as repair and maintenance costs are recognised in the income statement as an expense as incurred. The difference between opening and closing balance of assets under construction normally consists of additions and reclassifications to other categories of property, plant and equipment.

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

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

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

7.9 Impairment of non-financial assets
Circumstances may arise where the net book amount of an asset may not be economically recoverable from future business activity. Although future production may be technically possible and for commercial reasons necessary, this may be insufficient to recover the current carrying value in the future. Under these circumstances, it is required that a write-down of the net book amount to the recoverable amount (the higher of its fair value less cost to sell and its value in use) is charged as an immediate impairment expense in the income statement. Goodwill and intangible assets with infinite lives are tested for impairment annually, whereas other assets should be tested when circumstances indicate that the carrying amount may not be recoverable. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). If the recoverable amount of the cash generating unit is less than its carrying amount, the impairment loss is allocated

first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. An impairment loss will be reversed if there is a change in the estimates used to determine the recoverable amount of the assets since the last impairment loss was recognised. The net book amount of the asset will be increased to its recoverable amount. Goodwill is never subject to reversion of impairment losses recognised.

7.10 Inventories

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

7.11 Trade receivables

Trade receivables are recognised initially at fair value. After their initial recognition trade receivables are carried at amortised cost, taking into account unrecoverable receivables. Indications for unrecoverable receivables are based on the past due aging. When receivables are considered to be uncollectible a provision for impairments is accounted for.

7.12 Cash and cash equivalents

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

7.13 Share capital

Share capital is classified as equity.

7.14 Share-based payments (performance share plan)

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

7.15 Derivatives and borrowings

The Group enters into a variety of derivative financial instruments to manage its exposure to commodity and foreign exchange rate risks. Derivatives are stated at fair value.
The change in fair value is included in net finance cost if no hedge accounting is applied. Fair value changes for derivatives which are accounted for under cash flow hedges are added or charged through the total comprehensive income into equity, taking taxation into account. Upon expiration the result from derivatives is brought to the income statement in association with the hedged items.
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

7.16 Finance leases

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

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

7.17 Deferred income tax

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

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

7.18 Employee benefit plans

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

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

The service costs including past service costs and the impact of curtailments and settlements are recognised as personnel expenses. The interest expenses are recognised as net interest expenses on employee benefit plans as part of net finance cost. Curtailment gains and losses are accounted for as past service costs. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets.
The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.
The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Remeasurements, including actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, are recognised in other comprehensive income and therefore immediately charged or credited to equity. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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

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

7.19 Provisions

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

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity. The provisions are mainly non-current.

7.20 Trade and other payables

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

7.21 Current income tax

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

7.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of business. Revenue includes the proceeds of goods and services supplied, excluding VAT and net of price discounts and bonuses.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales of services are recognised in the accounting period in which the services are rendered on the basis of the actual service provided as a proportion of the total services to be provided. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.

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

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.
When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.
When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

7.23 Other income

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

7.24 Net finance cost

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

7.25 Taxation

Income tax expense represents the sum of current and deferred taxes. Taxable profit differs from 'profit before tax' as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

7.26 Notes to the consolidated cash flow statement

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

7.27 Operational leases

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

7.28 Dividend distribution

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

7.29 Accounting for hedging activities

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

If a derivative financial instrument is designated as a hedge against the variability in the cash flows of a recognised asset, liability or highly probable forecasted transaction, the effective part of the hedge is recognised through the total result into equity. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or liability, the associated gain or loss that was recognised directly in equity is brought to the income statement. Where hedge accounting is applied, the Group has documented at inception of the hedge relationship the relationship between hedging instruments and hedged items, as well as its risk management objectives for undertaking these hedge transactions.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

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

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

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

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

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

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

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

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

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

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

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

8. Financial risk management

8.1 Financial risk factors

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

8.1.1 Market risk

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

The US dollar and British pound are the major foreign currencies for the Group. As at 31 December 2017, if the Euro had weakened against the US dollar by 10%, with all other variables held constant, the net profit of the Group would have been impacted by positive EUR 1.8 million (2016: positive EUR 0.4 million). The net equity as at year-end would have been impacted by positive EUR 18.5 million (2016: positive EUR 32.3 million).
As at 31 December 2017, if the Euro had weakened against the British pound by 10%, with all other variables held constant, the net profit of the Group would have been impacted by positive EUR 1.0 million (2016: positive EUR 0.8 million). The net equity as at year-end would have been impacted by positive EUR 12.1 million (2016: positive EUR 11.0 million).

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

8.1.2 Credit risk

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

The maximum credit risk on financial assets, being the total carrying value of these assets before provisions for impairment of receivables, amounts to EUR 441.5 million (2016: EUR 437.7 million):

in EUR million	31-12-2017	31-12-2016
Trade receivables (before provision for impairment)	360.7	354.2
Other current assets	37.3	42.6
Cash and cash equivalents	43.5	40.9
TOTAL	**441.5**	**437.7**

8.1.3 Liquidity risk

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

8.1.4 Cash flow and interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises mainly from current and non-current borrowings. Group policy is to maintain the majority of its borrowings in floating rate instruments. Where considered applicable the Group manages its interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. As at 31 December 2017, if the Euribor/US Libor would have been 100 basis points higher, with all other variables constant, the net profit of the Group would have been impacted by negative EUR 1.7 million (2016: negative EUR 2.8 million), mainly as a result of higher interest expenses on floating rate borrowings. The net equity as at year-end would have been impacted with the same amount. The change in the market value as at balance sheet date of the derivative financial instruments, as a result of the interest adjustment, is excluded from this sensitivity analysis.

8.1.5 Capital risk

In order to manage going concern for shareholders and other stakeholders the Group periodically monitors the capital structure in consistency with the industry through the following principal financial ratios: leverage ratio (net debt / EBITDA on 12 months rolling basis), 2017: 1.3 (2016: 1.7), interest cover ratio (EBITDA / net interest expense on 12 months rolling basis), 2017: 25.9 (2016: 24.6), and gearing (net debt / total equity), 2017: 0.4 (2016: 0.5).

9. Segment reporting

9.1 Reportable segments

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

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

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

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

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

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

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

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

2016*	Installation Technology	Material Technology	Climate Technology	Industrial Technology	Holding / eliminations	Total
Revenue						
External customers	1,038.8	696.3	478.4	308.6	–	**2,522.1**
Intersegment	34.3	2.9	23.4	3.7	(64.3)	**–**
TOTAL REVENUE	**1,073.1**	**699.2**	**501.8**	**312.3**	**(64.3)**	**2,522.1**
Operating profit (EBITA)	122.4	90.6	54.0	46.2	(15.1)	**298.1**
EBITA as % of revenue	11.4	13.0	10.8	14.8	–	**11.8**
Assets	1,086.9	799.7	445.5	462.6	63.9	**2,858.6**
Liabilities	287.3	127.9	79.6	58.8	15.0	**568.6**
Depreciation	35.9	40.7	8.4	7.3	1.4	**93.7**
Capital expenditures	38.7	50.1	8.4	8.4	–	**105.6**

* 2016 figures are adjusted for comparison purposes.

Reconciliation of reportable segment EBITA to profit before tax is as follows:	2017	2016
Total operating profit (EBITA) of reportable segments	335.5	298.1
Amortisation of intangible assets	(33.7)	(29.9)
Net finance cost	(25.4)	(20.0)
CONSOLIDATED PROFIT BEFORE INCOME TAX	**276.4**	**248.2**

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

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

Reconciliation to the consolidated balance sheet is as follows:	2017	2016
Total liabilities of reportable segments	634.9	568.6
Non-current and current borrowings	603.6	745.6
Finance leases	8.5	8.4
Tax liabilities	150.7	144.9
Equity	1,512.7	1,391.1
CONSOLIDATED TOTAL EQUITY AND LIABILITIES	**2,910.4**	**2,858.6**

9.2 Geographical Information

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

Revenue	2017	%	2016	%
Benelux, United Kingdom, Nordic	668.1	24.8	632.0	25.1
North America	631.0	23.4	607.1	24.1
Germany, Austria, Switzerland	589.5	21.9	558.2	22.1
France, Southern Europe	347.4	12.9	320.3	12.7
Russia, Eastern Europe	261.6	9.7	239.7	9.5
Far East	91.5	3.4	70.7	2.8
Middle East & Africa	70.2	2.6	60.9	2.4
Other countries	34.7	1.3	33.2	1.3
TOTAL	**2,694.0**	**100.0**	**2,522.1**	**100.0**

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

Non-current assets	2017	%	2016	%
Benelux, United Kingdom, Nordic	582.0	30.4	549.0	28.8
North America	308.8	16.1	355.4	18.7
Germany, Austria, Switzerland	588.8	30.7	604.7	31.8
France, Southern Europe	247.1	12.9	203.1	10.7
Russia, Eastern Europe	104.7	5.5	89.4	4.7
Far East	84.7	4.4	101.4	5.3
Middle East & Africa	0.1	–	0.1	–
TOTAL	**1,916.2**	**100.0**	**1,903.1**	**100.0**

9.3 Analyses of revenue by category

Revenue	2017	%	2016	%
Sale of goods	2,197.3	81.6	2,047.6	81.2
Services	496.7	18.4	474.5	18.8
TOTAL	**2,694.0**	**100.0**	**2,522.1**	**100.0**

10. Intangible assets

	Goodwill	Other intangibles	Software	Total
AS AT 1 JANUARY 2016				
Cost	702.2	483.6	49.3	**1,235.1**
Accumulated amortisation	–	(148.2)	(37.1)	**(185.3)**
NET BOOK AMOUNT	**702.2**	**335.4**	**12.2**	**1,049.8**
Additions	–	0.5	5.4	**5.9**
Acquisition of subsidiaries	33.5	63.0	0.2	**96.7**
Amortisation	–	(25.8)	(4.1)	**(29.9)**
Currency translation	0.5	5.1	0.1	**5.7**
CLOSING NET BOOK AMOUNT	**736.2**	**378.2**	**13.8**	**1,128.2**
AS AT 31 DECEMBER 2016				
Cost	736.2	551.8	51.9	**1,339.9**
Accumulated amortisation	–	(173.6)	(38.1)	**(211.7)**
NET BOOK AMOUNT	**736.2**	**378.2**	**13.8**	**1,128.2**
Additions	–	2.1	7.7	**9.8**
Acquisition of subsidiaries	19.7	31.8	0.1	**51.6**
Amortisation	–	(29.2)	(4.5)	**(33.7)**
Currency translation	(14.9)	(13.8)	(0.6)	**(29.3)**
CLOSING NET BOOK AMOUNT	**741.0**	**369.1**	**16.5**	**1,126.6**
AS AT 31 DECEMBER 2017				
Cost	741.0	566.2	58.8	**1,366.0**
Accumulated amortisation	–	(197.1)	(42.3)	**(239.4)**
NET BOOK AMOUNT	**741.0**	**369.1**	**16.5**	**1,126.6**

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

10.1 Goodwill

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

Impairment tests

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

	31-12-2017	31-12-2016
Installation Technology	253.5	269.5
Material Technology	195.6	197.1
Climate Technology	120.6	122.3
Industrial Technology	171.3	147.3
TOTAL	**741.0**	**736.2**

The recoverable amount of a cash generating unit is determined based on their calculated value in use. These calculations are pre-tax cash flow projections based on the financial budgets for 2018 which are approved by management and on strategic business plans for the four years thereafter. Management determined budgeted growth rates based on past performance and its expectations of market developments. For the period after 2022 a growth rate equal to expected long-term inflation is taken into account. The discount rates used are pre-tax and reflect specific risks relating to the relevant cash generating units.

The assumptions used for impairment tests are as follows:

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

2016	Installation Technology	Material Technology	Climate Technology	Industrial Technology
Average growth rate (first 5 years)	3.6% - 5.3%	4.8%	3.7% - 4.9%	3.0% - 5.9%
Long-term average growth rate (after 5 years)	1.0%	1.0%	1.0%	1.0%
Discount rate (pre-tax)	10.6% - 15.7%	10.6%	10.9% - 12.5%	9.7% - 11.4%
Discount rate (post-tax)	8.0% - 9.2%	7.7%	7.7% - 8.8%	7.3% - 8.5%

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

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

The following changes in assumptions are assessed:
- Decrease of the average growth rate by 2.0%
- Decrease of the long-term average growth rate by 1.0%
- Increase of the discount rate (post-tax) by 1.0%

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

11. Property, plant and equipment

	Land and buildings	Plant and equipment	Other	Under construction	Total
AS AT 1 JANUARY 2016					
Cost	555.7	1,534.8	94.3	44.5	**2,229.3**
Accumulated depreciation	(255.0)	(1,155.8)	(82.1)	–	**(1,492.9)**
NET BOOK AMOUNT	**300.7**	**379.0**	**12.2**	**44.5**	**736.4**
Additions	15.8	53.9	3.5	32.4	**105.6**
Assets taken into operation	14.1	21.5	1.6	(37.2)	**–**
Disposals	(1.2)	(2.8)	(0.3)	–	**(4.3)**
Acquisition of subsidiaries	7.2	13.2	0.5	–	**20.9**
Disposal of subsidiaries	(0.2)	(1.7)	–	–	**(1.9)**
Depreciation	(16.8)	(71.8)	(5.1)	–	**(93.7)**
Currency translation	(0.1)	(1.0)	0.1	(0.5)	**(1.5)**
CLOSING NET BOOK AMOUNT	**319.5**	**390.3**	**12.5**	**39.2**	**761.5**
AS AT 31 DECEMBER 2016					
Cost	595.4	1,572.7	88.9	39.2	**2,296.2**
Accumulated depreciation	(275.9)	(1,182.4)	(76.4)	–	**(1,534.7)**
NET BOOK AMOUNT	**319.5**	**390.3**	**12.5**	**39.2**	**761.5**
Additions	10.8	60.5	3.5	44.1	**118.9**
Assets taken into operation	5.7	26.7	4.3	(36.7)	**–**
Disposals	(0.5)	(1.4)	(0.1)	(0.2)	**(2.2)**
Acquisition of subsidiaries	5.2	0.9	0.3	–	**6.4**
Depreciation	(21.1)	(60.5)	(5.3)	–	**(86.9)**
Currency translation	(5.7)	(14.1)	(0.6)	(2.4)	**(22.8)**
CLOSING NET BOOK AMOUNT	**313.9**	**402.4**	**14.6**	**44.0**	**774.9**
AS AT 31 DECEMBER 2017					
Cost	602.1	1,566.3	91.0	44.0	**2,303.4**
Accumulated depreciation	(288.2)	(1,163.9)	(76.4)	–	**(1,528.5)**
NET BOOK AMOUNT	**313.9**	**402.4**	**14.6**	**44.0**	**774.9**

At year-end, Group companies had investment commitments outstanding in respect of property, plant and equipment in the amount of EUR 50.7 million (2016: EUR 49.3 million) of which EUR 44.0 million (2016: EUR 39.2 million) has been capitalised on the balance sheet as advance payment.

The Group leases production equipment under a number of finance leases. The leased equipment secures the lease obligations. As at 31 December 2017, the net carrying amount of leased equipment was EUR 8.5 million (2016: EUR 8.2 million).

12. Inventories

	31-12-2017	31-12-2016
Raw materials	131.4	117.2
Work in progress	137.6	134.0
Finished goods	283.8	266.4
Other inventories	4.0	3.5
TOTAL	**556.8**	**521.1**

The costs of inventories recognised as an expense and impairment losses on inventories are included in 'raw materials and work subcontracted'. In 2017 EUR 952.3 million (2016: EUR 895.3 million) raw materials is recognised in the consolidated income statement as raw materials used.

The provision for write-down of inventories, due to obsolescence and slow moving stock, amounts to EUR 27.9 million (2016: EUR 30.1 million). During 2017 a write-off expense of EUR 1.8 million (2016: EUR 0.2 million) is included in the raw materials and work subcontracted.

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

13. Trade receivables

	31-12-2017	31-12-2016
Trade receivables (gross)	360.7	354.2
Provision for impairment of receivables	(7.6)	(7.6)
TRADE RECEIVABLES (NET)	**353.1**	**346.6**

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

Impairment losses on trade receivables are included in the 'other operating expenses' and amount to EUR 1.9 million (2016: EUR 0.9 million). The carrying amount approximates the fair value.

The movement in the provision for impairment of receivables is as follows:	2017	2016
AS AT 1 JANUARY	7.6	7.2
Additions	1.9	0.9
Used during year	(2.0)	(1.4)
Acquisition of subsidiaries	0.1	0.9
AS AT 31 DECEMBER	**7.6**	**7.6**

The provision for impairment of receivables of EUR 7.6 million (2016: EUR 7.6 million) is related to receivables past due more than 90 days. The impairment of receivables is based on individual cases.

The past due aging analysis of the trade receivables is as follows:	31-12-2017	31-12-2016
Not past due	283.0	294.6
Past due less than 30 days	46.6	40.1
Past due between 30 days and 60 days	10.6	8.7
Past due between 60 days and 90 days	5.2	2.9
Past due more than 90 days	15.3	7.9
TRADE RECEIVABLES (GROSS)	**360.7**	**354.2**

The majority of the carrying amounts of the trade receivables are denominated in the functional currency of the reported entities.

	31-12-2017	31-12-2016
Euro	201.6	165.8
US dollar	85.3	99.8
British pound	30.8	36.7
Other currencies	43.0	51.9
TRADE RECEIVABLES (GROSS)	**360.7**	**354.2**

14. Other current assets

	31-12-2017	31-12-2016
Prepaid and accrued income	18.2	17.7
Derivative financial instruments	1.1	1.5
Other receivables	18.0	23.4
TOTAL	**37.3**	**42.6**

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

15. Equity

15.1 Share capital

The total number of ordinary shares outstanding at year-end was 110.6 million shares (2016: 110.6 million shares) with a par value of EUR 0.25 per share. In addition, there are 100 priority shares issued with a par value of EUR 1.00 per share. An explanation of the total number of shares outstanding is included in note 34.5.

15.2 Currency translation and hedging reserve

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

15.3 Share based payments (performance share plan)

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

PSP 2015-2017: As at the end of 2017, the total fair value of the 132,500 (2016: 132,500) conditional shares was EUR 3.6 million. An amount of EUR 1.2 million was charged to the personnel expenses and credited to total equity (overall no impact on equity). Based on the average growth of the earnings per share before amortisation (EPS) over the three-year period (2015-2017) it is expected that 100% of the conditional shares will vest in April 2018 (market value of EUR 5.6 million as at the end of 2017).

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

The Management Board members of Aalberts Industries N.V. participate in the Performance Share Plan. The details are mentioned in the remuneration of the board on page 99.

15.4 Dividend

The dividends paid in 2017 amounted to EUR 0.58 per share (2016: EUR 0.52 per share). A dividend in respect of the year ended 31 December 2017 of EUR 0.65 per share will be proposed at the General Meeting to be held on 18 April 2018. These financial statements do not reflect this dividend payable.

15.5 Non-controlling interests

Non-controlling interests amount to EUR 22.4 million (2016: EUR 18.0 million), where the result for the year amounts to EUR 4.4 million (2016: 2.7 million).

16. Borrowings

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

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

The interest rate margin depends on the leverage ratio achieved.

Definitions:
- Leverage ratio: Net debt / EBITDA on 12 months rolling basis
- Interest cover ratio: EBITDA / net interest expense on 12 months rolling basis

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

Covenant ratios as at year end	2017	2016
Leverage ratio	1.3	1.7
Interest cover ratio	25.9	24.6

	Bank borrowings	Finance leases	Total 2017	Total 2016
AS AT 1 JANUARY	**543.1**	**8.4**	**551.5**	**614.4**
New borrowings	142.6	1.9	144.5	0.6
Repayments	(128.3)	(1.7)	(130.0)	(64.4)
Acquisition of subsidiaries	–	–	–	0.3
Currency translation differences	(17.0)	(0.1)	(17.1)	0.6
AS AT 31 DECEMBER	**540.4**	**8.5**	**548.9**	**551.5**
Current portion of non-current borrowings	(133.3)	(1.5)	(134.8)	(90.3)
NON-CURRENT BORROWINGS AS AT 31 DECEMBER	**407.1**	**7.0**	**414.1**	**461.2**

The current portion of non-current borrowings amounts to EUR 134.8 million (2016: EUR 90.3 million) and is presented within the current liabilities. The carrying amount approximates the fair value; the effective interest rate approximates the average interest rate. The average effective interest rate on the portfolio of borrowings outstanding in 2017, including hedge instruments related to these borrowings, amounted to 2.0% (2016: 1.9%).

16.1 Bank borrowings

The maturity of the future undiscounted cash flows related to bank borrowings is as follows:

	Repayments bank borrowings	Interest payments	Total 2017	Total 2016
2017	–	–	–	98.2
2018	133.3	7.0	140.3	119.5
2019	125.1	5.2	130.3	112.7
2020	122.0	3.3	125.3	107.6
2021	120.8	1.6	122.4	98.9
2022	38.5	0.3	38.8	30.7
2023 and thereafter	0.7	0.1	0.8	0.7
TOTAL	**540.4**	**17.5**	**557.9**	**568.3**

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

Bank borrowings	2017	2016
Euro	426.1	505.4
US dollar	109.4	32.4
Other currencies	4.9	5.3
TOTAL	**540.4**	**543.1**

16.2 Finance leases

Maturity finance leases	2017	2016
Minimum lease payments		
Within 1 year	1.7	1.3
Between 1-5 years	6.0	6.0
Over 5 years	1.5	2.2
TOTAL	**9.2**	**9.5**
Future finance charges		
Within 1 year	0.2	0.3
Between 1-5 years	0.4	0.7
Over 5 years	0.1	0.1
TOTAL	**0.7**	**1.1**
Present value of finance lease		
Within 1 year	1.5	1.0
Between 1-5 years	5.6	5.3
Over 5 years	1.4	2.1
PRESENT VALUE OF FINANCE LEASE IN THE BALANCE SHEET	**8.5**	**8.4**

16.3 Cash and current borrowings

Bank borrowings	31-12-2017	31-12-2016
Cash	43.5	40.9
Current borrowings	(63.2)	(202.5)
CASH AND CURRENT BORROWINGS	**(19.7)**	**(161.6)**

The cash and current borrowings amount to EUR 19.7 million negative (2016: EUR 161.6 million negative). The cash consists of cash and bank balances for an amount of EUR 36.0 million (2016: EUR 39.1 million) and cash in transit for an amount of EUR 7.5 million (2016: EUR 1.8 million). The current borrowings are drawn on credit facilities which mainly consist of zero balancing cash pool agreements with several domestic and foreign financial institutions. Cash is freely disposable.

Current borrowings are short-term credit facilities consisting of committed and uncommitted credit lines, provided by a number of credit institutions. The total of these facilities at year-end 2017 amounted to EUR 909.0 million (2016: EUR 905.5 million), of which EUR 63.2 million was used (2016: EUR 202.5 million). On average, during the year an amount between EUR 200 million and EUR 250 million was used. During 2016, RCF credit facilities have been renewed with eight relationship banks for five years. Six of these RCF credit facilities consist of EUR 50.0 million committed and EUR 50.0 million uncommitted and two of these RCF credit facilities consist of USD 50.0 million committed and USD 50.0 million uncommitted, bringing the total committed RCF credit facilities to EUR 383.3 million. The carrying amount approximates the fair value.

17. Deferred income taxes

2016	Tax Losses	Intangible assets	Plant and equipment	Provisions	Working capital and other	Off-setting	(Net asset)/ liability
Assets	4.6	0.2	1.3	19.8	9.9	(22.7)	13.1
Liabilities	–	94.7	33.3	1.7	10.1	(22.7)	117.1
AS AT 1 JANUARY 2016	**(4.6)**	**94.5**	**32.0**	**(18.1)**	**0.2**	**–**	**104.0**
Income statement	1.2	(2.0)	(1.0)	–	(2.5)	–	(4.3)
Direct to other comprehensive income	–	–	0.1	(2.7)	(0.3)	–	(2.9)
Acquisition subsidiaries	–	9.2	0.3	2.9	(3.0)	–	9.4
Currency translation	–	1.1	0.5	1.9	(0.4)	–	3.1
Movements 2016	**1.2**	**8.3**	**(0.1)**	**2.1**	**(6.2)**	**–**	**5.3**
Assets	3.4	0.4	2.1	21.1	12.0	(25.6)	13.4
Liabilities	–	103.2	34.0	5.1	6.0	(25.6)	122.7
AS AT 31 DECEMBER 2016	**(3.4)**	**102.8**	**31.9**	**(16.0)**	**(6.0)**	**–**	**109.3**
Income statement	0.4	(4.4)	3.4	(3.2)	1.3	–	(2.5)
Direct to other comprehensive income	–	0.1	–	1.5	0.7	–	2.3
Acquisition subsidiaries	–	8.0	0.5	–	–	–	8.5
Effect of rate changes	(0.2)	(8.7)	(8.8)	0.4	0.8	–	(16.5)
Currency translation	–	(3.1)	(2.5)	0.3	(0.1)	–	(5.4)
Movements 2017	**0.2**	**(8.1)**	**(7.4)**	**(1.0)**	**2.7**	**–**	**(13.6)**
Assets	3.2	0.1	4.5	18.9	7.0	(19.0)	14.7
Liabilities	–	94.8	29.0	1.9	3.7	(19.0)	110.4
AS AT 31 DECEMBER 2017	**(3.2)**	**94.7**	**24.5**	**(17.0)**	**(3.3)**	**–**	**95.7**

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

17.1 Unrecognised unused tax losses

The Group has unrecognised carry-forward tax losses amounting to some EUR 45.9 million (2016: EUR 31.7 million). The related deferred income tax assets have not been recorded, since future usage is mainly depending on profit-earning capacity.

	31-12-2017	31-12-2016
Expire in less than 1 year	0.8	–
Expire between 1 and 5 years	17.1	13.0
Expire from 5 years or more	7.2	4.2
Indefinite	20.8	14.5
TOTAL UNRECOGNISED UNUSED TAX LOSSES	**45.9**	**31.7**

18. Provisions

18.1 Retirement benefit obligations

	Present value (partly) funded obligations	Fair value plan assets	Net liability	Present value unfunded obligations	Total
AS AT 1 JANUARY 2016	**190.4**	**(129.1)**	**61.3**	**20.1**	**81.4**
Current service cost	1.2	–	**1.2**	0.6	**1.8**
Settlements	(0.2)	0.1	**(0.1)**	–	**(0.1)**
Interest expense / (income)	5.8	(3.8)	**2.0**	0.3	**2.3**
Recognised in income statement	6.8	(3.7)	**3.1**	0.9	**4.0**
Actuarial gains and losses (demographic assumptions)	(6.1)	–	**(6.1)**	–	**(6.1)**
Actuarial gains and losses (financial assumptions)	33.9	–	**33.9**	1.2	**35.1**
Actuarial gains and losses (experience adjustments)	(2.2)	–	**(2.2)**	0.3	**(1.9)**
Remeasurements of plan assets	–	(15.2)	**(15.2)**	–	**(15.2)**
Recognised in other comprehensive income	25.6	(15.2)	**10.4**	1.5	**11.9**
Contributions by employer	–	(3.8)	**(3.8)**	–	**(3.8)**
Contributions by participants	0.3	(0.3)	**–**	–	**–**
Benefits paid	(6.2)	6.2	**–**	(1.2)	**(1.2)**
Reclassifications	2.8	(0.8)	**2.0**	(2.3)	**(0.3)**
Currency translation	(22.0)	14.6	**(7.4)**	–	**(7.4)**
AS AT 31 DECEMBER 2016	**197.7**	**(132.1)**	**65.6**	**19.0**	**84.6**

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

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

	United Kingdom	Germany	France	Other	Total
Present value of (partly) funded obligations	149.0	8.9	2.1	26.1	186.1
Fair value of plan assets	(107.9)	(4.2)	(0.1)	(21.4)	(133.6)
	41.1	4.7	2.0	4.7	52.5
Present value of unfunded obligations	–	7.9	8.6	2.6	19.1
LIABILITY IN THE BALANCE SHEET AS AT 31 DECEMBER 2017	**41.1**	**12.6**	**10.6**	**7.3**	**71.6**
LIABILITY IN THE BALANCE SHEET AS AT 31 DECEMBER 2016	**53.2**	**14.2**	**10.1**	**7.1**	**84.6**

Amounts recognised in income statement	United Kingdom	Germany	France	Other	Total
Current service cost in personnel expenses	0.2	0.1	0.6	1.0	1.9
Interest expense / (income)	1.4	0.2	0.2	–	1.8
TOTAL RECOGNISED IN INCOME STATEMENT	**1.6**	**0.3**	**0.8**	**1.0**	**3.7**

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

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

Actuarial assumptions 2016	United Kingdom	Germany	France
Discount rate	2.70%	1.50%	1.50%
Rate of inflation	3.25%	1.50%	2.00%
Future salary increases	2.32%	2.30%	2.00%

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

		Impact on defined benefit obligation	
Actuarial assumption	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by 7.7%	Increase by 7.9%
Rate of inflation	0.50%	Increase by 6.3%	Decrease by 6.2%
Future salary increases	0.50%	Increase by 3.9%	Decrease by 3.8%
Life expectancy	1 year	Increase by 3.1%	Decrease by 3.1%

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

The plan assets consist of the following categories:	2017	2016
Equities	51%	49%
Bonds	6%	6%
Other net assets	43%	45%
TOTAL	**100%**	**100%**

The other net assets mainly comprise of collective insurance contracts held by insurance companies. The Dutch subsidiaries participate in multi-employer pension plans. Under IFRS these plans qualify as defined contribution plans. The Group expects EUR 5.8 million in contributions to be paid to its defined benefit plans in 2018 of which EUR 2.9 million is related to the UK defined benefit plans.

UK Defined Benefit Plans

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

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

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

Yorkshire Fittings Pension Scheme

The Yorkshire Fittings Pension Scheme is a separate trustee administrated fund, holding the pension assets to meet long-term pension liabilities for some 574 past employees as at 31 March 2015. The scheme closed to future accrual with effect from 31 December 2010. The average duration of the defined benefit obligation at the period ended 31 December 2017 is 18 years.

The plan asset scheme of Yorkshire Fittings Pension Scheme holds next to equities, bonds, property and cash also Liability Driven Investments ('LDI'). The LDI aim to hedge 93% of the inflation risk and 74% of the interest rate risk to the liabilities. The asset is classified as 'other net assets' as at 31 December 2017 and as at 31 December 2016.

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

The IAS 19 Disclosure Report regarding the Yorkshire Fittings Pension Scheme provided by an independent actuary shows a deficit of GBP 30.3 million as at 31 December 2017 (2016: GBP 38.1 million).

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

Hauck Heat Treatment Limited Group Pension Scheme

The Hauck Heat Treatment Limited Group Pension Scheme is a separate trustee administrated fund, holding the pension assets to meet long term pension liabilities for some 163 past employees as at 31 December 2015. The scheme closed to future accrual with effect from 30 September 2007. The average duration of the defined benefit obligation at the period ended 31 December 2017 is 17 years.

Together with the trustees, the investment strategy is reviewed at the time of each funding valuation. The Hauck Heat Treatment Limited Group Pension Scheme is subject to a tri-annual actuarial review, in accordance with the scheme funding requirements of the Pensions Act 2004, at which point the future funding strategy is agreed between the trustees and the company.

The most recent tri-annual valuation of Hauck Heat Treatment Limited Group Pension Scheme was carried out as at 31 December 2015 and showed a deficit of GBP 5.0 million. The company has agreed with the trustees that it will aim to eliminate the deficit over a period of 11 years and 1 month from 1 April 2017 by the payments of annual contributions of GBP 0.5 million in respect of the deficit.

The IAS 19 Disclosure Report regarding the Hauck Heat Treatment Limited Group Pension Scheme provided by an independent actuary shows a deficit of GBP 6.2 million as at 31 December 2017 (2016: GBP 7.3 million).

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

18.2 Other provisions and non-current liabilities

	2017	2016
AS AT 1 JANUARY	**37.8**	**7.2**
Additions	1.0	1.1
Used / paid during year	(4.8)	(1.4)
Unused amounts reversed	(0.5)	(0.7)
Acquisition subsidiaries	17.7	34.2
Reclassified to current	(4.3)	(2.7)
Unwinding discounts on provisions	1.3	–
Currency translation	(4.0)	0.1
AS AT 31 DECEMBER	**44.2**	**37.8**

The other provisions and non-current liabilities are for a large part related to deferred purchase considerations for acquisitions. The total amount of deferred purchase considerations as per 31 December 2017 amounts to EUR 45.6 million (2016: EUR 34.2 million) of which EUR 20.1 million is related to fixed deferred payments and EUR 25.5 million is related to variable earn-out considerations depending on future results. The increase or decrease of the variable earn-out considerations, due to a change of the estimated results by 10%, will be limited to EUR 3.0 million. EUR 38.5 million of the total deferred purchase considerations is included in other provisions and non-current liabilities (2016: EUR 31.5 million) and EUR 7.1 million is included in current liabilities (2016: EUR 2.7 million).

Liabilities related to normal business operations, provisions for restructuring and provisions for environmental restoration amount to EUR 5.7 million as per 31 December 2017 (2016: EUR 6.3 million).

19. Trade and other payables

	31-12-2017	31-12-2016
Trade creditors	291.7	242.2
Investment creditors	18.1	10.1
Customer related payables	68.6	57.2
TOTAL	**378.4**	**309.5**

20. Other current liabilities

	31-12-2017	31-12-2016
Social security charges and taxes	24.1	21.0
Value added tax	8.0	6.7
Accrued expenses	34.5	38.1
Amounts due to personnel	55.3	51.8
Deferred considerations	7.1	2.7
Derivative financial instruments	1.5	4.4
Other	10.2	12.0
TOTAL	**140.7**	**136.7**

The deferred considerations relate to the unpaid part of recent acquisitions and are expected to be paid in full in the first half year 2018.

The derivative financial instruments consist of the following items:	31-12-2017	31-12-2016
Interest rate swap contracts	1.5	4.3
Foreign currency exchange contracts	–	0.1
TOTAL	**1.5**	**4.4**

The principal amounts of the outstanding interest rate swap contracts at 31 December 2017 were EUR 371.3 million (2016: EUR 341.3 million), for foreign currency exchange contracts EUR 143.0 million (2016: EUR 185.5 million) and for metal hedging contracts EUR 14.2 million (2016: EUR 9.4 million).

The majority of the outstanding foreign currency exchange and metal hedging contracts has a short-term nature. Interest rate swaps maturity is directly related to the bank borrowings concerned (note 16). The fair value of financial instruments equals the market value at 31 December 2017. All financial instruments are classified as level 2.

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

For all other items included in other current liabilities, the carrying amount approximates the fair value.

21. Personnel expenses

	2017	2016
Wages and salaries	(625.4)	(586.7)
Social security charges	(115.5)	(108.2)
Defined benefit plans	(1.9)	(1.7)
Defined contribution plans	(16.7)	(15.3)
Other expenses related to employees	(22.2)	(21.3)
TOTAL	**(781.7)**	**(733.2)**

In the year under review, the average number of full-time employees amounted to 16,118 (2016: 15,287) of which 14,228 (2016: 13,492) full-time employees are active outside the Netherlands.

The remuneration of the Management and Supervisory Board is disclosed as part of the company financial statements (note 34.9).

22. Other operating expenses

	2017	2016
Production expenses	(270.0)	(251.0)
Selling expenses	(70.3)	(77.0)
Housing expenses	(43.6)	(41.2)
General expenses	(98.2)	(95.1)
Warranty costs	(3.8)	(3.5)
Other operating income	11.6	23.8
TOTAL	**(474.3)**	**(444.0)**

Production expenses mainly comprise energy costs, repair and maintenance costs and freight and packaging costs. Other operating income is income not related to the key business activities of the Group or relates to non-recurring items like government grants and insurance amounts received. Several operational excellence projects continued in 2017 and lead to non-recurring expenses for an amount of EUR 8.2 million (2016: EUR 12.7 million).

23. Net finance cost

	2017	2016
Interest income	1.2	0.8
Interest expenses:		
Bank borrowings	(17.7)	(17.1)
Finance leases	(0.2)	(0.3)
Total interest expense	**(17.9)**	**(17.4)**
Net interest expense	**(16.7)**	**(16.6)**
Foreign currency exchange results	**(5.3)**	**(4.3)**
Fair value results on financial instruments:		
Interest/foreign currency swaps	0.1	0.8
Metal price hedge contracts	(0.4)	2.4
Total fair value results on derivative financial instruments	**(0.3)**	**3.2**
Unwinding discounts on provisions	**(1.3)**	**–**
Net interest expense on employee benefit plans	**(1.8)**	**(2.3)**
NET FINANCE COST	**(25.4)**	**(20.0)**

24. Income tax expense

	2017	2016
Current tax:		
Current year	(83.6)	(67.7)
Prior years	(3.4)	1.0
	(87.0)	(66.7)
Deferred tax	19.0	4.3
TOTAL INCOME TAX EXPENSE	**(68.0)**	**(62.4)**

	2017	2016
Profit before tax	**276.4**	**248.2**
Tax calculated at domestic rates applicable to profits	(80.4)	(72.1)
Expenses not deductible for tax purposes	(2.4)	(2.2)
Tax-exempt results and tax relief facilities	6.3	7.0
Other effects	8.5	4.9
TOTAL INCOME TAX EXPENSE	**(68.0)**	**(62.4)**
Effective tax rate	24.6%	25.2%

For 2017 the weighted average applicable domestic tax rate amounted to 29.1% (2016: 29.1%). The line "Other effects" includes a deferred tax benefit resulting from tax rate changes in primarily the USA and Belgium (EUR 16.5 million). This benefit is partly offset by an increase of the provsion for uncertain tax positions.

25. Earnings and dividends per share

	2017	2016
Net profit (in EUR million)	204.5	182.6
Weighted average number of shares in issue (x1)	110,580,102	110,580,102
Basic earnings per share (in EUR)	**1.85**	**1.65**
Net profit (in EUR million)	204.5	182.6
Weighted average number of shares in issue including effect of performance share plan (x1)	110,859,602	110,712,602
Diluted earnings per share (in EUR)	**1.85**	**1.65**
Net profit before amortisation (in EUR million)	238.2	212.4
Weighted average number of shares in issue (x1)	110,580,102	110,580,102
Basic earnings per share before amortisation (in EUR)	**2.15**	**1.92**
Net profit before amortisation (in EUR million)	238.2	212.4
Weighted average number of shares in issue including effect of performance share plan (x1)	110,859,602	110,712,602
Diluted earnings per share before amortisation (in EUR)	**2.15**	**1.92**

The dividends paid in 2017 were EUR 0.58 per share (2016: EUR 0.52 per share). A dividend in respect of the year ended 31 December 2017 of EUR 0.65 per share will be proposed at the General Meeting to be held on 18 April 2018. These financial statements do not reflect this dividend payable.

26. Contingent liabilities

The Group has contingent liabilities in respect of bank and other guarantees arising from the ordinary course of business. It is not anticipated that any material liabilities will rise from the contingent liabilities. The Group has provided guarantees in the ordinary course of business amounting to EUR 15.1 million (2016: EUR 9.4 million) to third parties.

Outstanding commitments related to the purchase of copper, brass and aluminium for the European Installation Technology and Climate Technology operations amounted to EUR 62.2 million as at year-end (2016: EUR 38.0 million).

27. Operational lease and rent commitments

	2017	2016*
Due in less than 1 year	32.3	26.5
Due between 1 and 5 years	70.4	58.5
Due from 5 years or more	47.3	31.5
TOTAL COMMITMENTS	**150.0**	**116.5**

* 2016 figures are adjusted for comparison purposes.

28. Business combinations

28.1 Acquisition of subsidiaries

The following Group companies were acquired in 2017:

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

Acquisition Vin Service S.r.l. (Italy)

Aalberts Industries N.V. acquired 100% of the shares of Vin Service S.r.l. (Vin Service) as of January 2017. Vin Service is based in Zanica (Bergamo) in Northern Italy and generates an annual revenue of approximately EUR 27 million.

Vin Service is an innovative company, specialised in the design and manufacturing of dispensing equipment for all kinds of beverages, globally servicing its key customers. The portfolio of Vin Service is complementary and will strengthen our global market position in the beverage dispense market. Many possibilities exist for the Vin Service product range and technologies in especially North America and Asia through utilisation of the Aalberts Dispense Technologies Key Account contacts.

Acquisition Pneu/tec B.V. (The Netherlands)

Aalberts Industries N.V. acquired 100% of the shares of Pneu/tec B.V. (Pneutec) as of July 2017. Pneutec is based in Hoofddorp, the Netherlands and generates an annual revenue of approximately EUR 15 million.

Pneutec is an engineering company specialised in vacuum, pneumatic and electronic technology. It delivers integrated system solutions for Key Accounts mainly in the Semicon & Science end market. The company has also developed niche applications for other end markets, utilising its core technologies. Besides engineering Pneutec also assembles modules in its recently expanded clean room. Pneutec will bring Aalberts Advanced Mechatronics additional vacuum, pneumatic and electronic technologies plus engineering capacity to develop the many ongoing projects in the several end markets.

28.2 Assets acquired and liabilities recognised at acquisition date

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

Fair values of assets and liabilities arising from business combinations	Acquisitions 2017	Prior year acquisitions	Total
Intangible assets	32.2	(0.3)	31.9
Property, plant and equipment	1.8	4.6	6.4
Inventories	5.8	0.9	6.7
Receivables and other current assets	6.4	–	6.4
Cash and current borrowings	0.4	–	0.4
Bank borrowings	–	–	–
Net deferred tax asset/(liability)	(8.0)	(0.5)	(8.5)
Provisions	(0.3)	–	(0.3)
Payables and other current liabilities	(6.3)	(0.1)	(6.4)
Net assets acquired	**32.0**	**4.6**	**36.6**
Purchase consideration settled in cash	38.7	–	38.7
Deferred purchase consideration	20.4	(2.8)	17.6
Total purchase consideration	**59.1**	**(2.8)**	**56.3**
GOODWILL	**27.1**	**(7.4)**	**19.7**
Purchase consideration settled in cash	(38.7)	(3.7)	(42.4)
Purchase consideration paid in advance in prior year	1.0	–	1.0
Cash and current borrowings	0.4	–	0.4
CASH OUTFLOW ON ACQUISITIONS	**(37.3)**	**(3.7)**	**(41.0)**

Acquisitions 2017

The fair values of the identifiable assets and liabilities as at acquisition date for the acquisitions in 2017 are based on the outcome of the final purchase price allocation for Vin Service and the preliminary purchase price allocation for Pneutec. Therefore, the fair value of the identifiable assets and liabilities were determined provisionally for Pneutec and are subject to change. The purchase price allocation will be finalised within 12 months from acquisition date.

The total purchase consideration of EUR 59.1 million includes a deferred purchase consideration of EUR 20.4 million. This is related to fixed deferred payments and agreed upon additional considerations depending on the results for the years 2017, 2018 and 2019. The deferred purchase consideration relating to these transactions represents its fair value as at acquisition date. The non-current part of the deferred purchase considerations is recognised as part of the other provisions and non-current liabilities.

The goodwill of EUR 27.1 million connected to the acquired business mainly includes amounts related to the benefit of anticipated synergies, future market developments and knowhow. The goodwill arising on these acquisitions is not tax deductible.

The cash outflow on acquisitions of EUR 37.3 million includes the consideration paid in cash during 2017 of EUR 37.7 million adjusted for the cash and current balances acquired.

The nominal value of the acquired receivables at acquisition dates amounts to EUR 6.5 million (fair value EUR 6.4 million).

Prior year acquisitions

In 2016 the following Group companies were acquired:

Group company	Head office in	Consolidated as from	Interest	Group activity
Ushers Machine & Tool Co., Inc.	United States	January 2016	100%	Material Technology
Schroeder Industries, Inc.	United States	February 2016	100%	Industrial Technology
Tri-Went Group	United States	June 2016	100%	Installation Technology
Shurjoint Group	Taiwan	October 2016	100%	Installation Technology

The fair values of the identifiable assets and liabilities of the acquired companies at acquisition date were only determined provisionally by the end of 2016 based on the outcome of preliminary purchase price allocations. These purchase price allocations were finalised in 2017 within 12 months from the respective acquisition dates. This has led to some changes in the fair value, mainly related to property, plant and equipment and the deferred purchase considerations, which also lowered the goodwill for an amount of EUR 7.4 million. These changes have been adjusted in the consolidated balance sheet as at 31 December 2017.

Contingent purchase considerations with respect to prior year acquisitions were paid in cash during 2017 for a total amount of EUR 3.7 million.

28.3 Contribution of business combinations

The increase of the 2017 revenue due to the consolidation of acquisitions amounted to EUR 29.9 million. The contribution to the 2017 operating profit of Aalberts Industries amounted to EUR 5.2 million.

Had both acquisitions been effected at 1 January 2017, the contribution to the 2017 revenue would have been EUR 37.5 million (pro forma). The contribution to the operating profit for the year would have been EUR 6.3 million (pro forma).

28.4 Acquisition related costs

The Group incurred acquisition related costs such as external legal fees and due diligence costs for an amount of EUR 0.5 million (2016: EUR 2.2 million). These costs have been excluded from the purchase consideration and have been recognised as an expense In the current year within the general expenses line item (operating expenses).

28.5 Disposal of subsidiaries

In 2016, Aalberts Industries N.V. divested the subsidiaries Machinefabriek Technology Twente B.V. and Germefa B.V. Both entities are located in the Netherlands and were part of Industrial Technology. The transactions were closed in 2016 and resulted in a net cash inflow of EUR 10.0 million and a realised book profit of EUR 6.3 million.

29. Overview of significant subsidiaries

The consolidated financial statements of Aalberts Industries N.V. include the assets and liabilities of more than 200 legal entities. The overview on page 106 and 107 shows the most important operational legal entities including the country in which their main operations are located. They all are wholly owned subsidiaries, unless indicated otherwise.

30. Related parties

The Management Board and the Supervisory Board are considered key management. Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The total remuneration of key management in 2017 amounts to EUR 5.4 million (2016: EUR 4.0 million). No material transactions have been executed other than intercompany transactions and remuneration, as stated in note 34.9, under normal business conditions.

31. Subsequent events

There are no subsequent events to report.

32. Company balance sheet (before profit appropriation)

in EUR million	Notes	2017	2016
ASSETS			
Intangible assets		0.4	0.4
Investments in subsidiaries	34.2	1,561.3	1,402.0
Loans to Group companies	34.3	–	27.1
Fixed assets		**1,561.7**	**1,429.5**
Other debtors, prepayments and accrued income	34.4	11.7	41.8
Cash and cash equivalents		0.2	170.5
Current assets		**11.9**	**212.3**
TOTAL ASSETS		**1,573.6**	**1,641.8**
EQUITY AND LIABILITIES			
Issued and paid-up share capital		27.6	27.6
Share premium account		200.8	200.8
Other reserves		1,102.5	974.3
Currency translation and hedging reserve		(45.1)	(12.2)
Retained earnings		204.5	182.6
Shareholders' equity	34.5	**1,490.3**	**1,373.1**
Loans from Group companies		–	6.8
Deferred taxation		1.8	2.2
Non-current liabilities		**1.8**	**9.0**
Current borrowings		77.2	–
Trade creditors		0.5	0.6
Taxation and social security charges		0.1	0.1
Payables to Group companies, other payables, accruals and deferred income		3.7	259.0
Current liabilities		**81.5**	**259.7**
TOTAL EQUITY AND LIABILITIES		**1,573.6**	**1,641.8**

33. Company income statement

in EUR million	Notes	2017	2016
Management fees		7.9	6.2
Personnel expenses	34.7	(6.9)	(6.3)
Housing expenses		(0.3)	(0.3)
General expenses		(6.4)	(5.7)
Amortisation of intangible assets		(0.1)	–
NET OPERATING EXPENSES		**(5.8)**	**(6.1)**
OPERATING PROFIT / (LOSS)		**(5.8)**	**(6.1)**
Net interest income / (expense)		(0.4)	3.3
PROFIT / (LOSS) BEFORE INCOME TAX		**(6.2)**	**(2.8)**
Income tax benefit / (expense)	34.8	4.1	4.8
Result subsidiaries		206.6	180.6
PROFIT / (LOSS) AFTER INCOME TAX		**204.5**	**182.6**

34. Notes to the company financial statements

34.1 Accounting principles

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

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

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

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

34.2 Investments in subsidiaries

AS AT 1 JANUARY 2016	1,245.7
Share in 2016 profit	180.6
Capital contribution / (repayment)	1.0
Dividends paid	(5.4)
Currency translation and remeasurements	(19.9)
AS AT 31 DECEMBER 2016	**1,402.0**
Share in 2017 profit	206.6
Capital contribution / (repayment)	4.3
Dividends paid	(26.0)
Currency translation and remeasurements	(25.6)
AS AT 31 DECEMBER 2017	**1,561.3**

34.3 Loans to Group companies

	2017	2016
AS AT 1 JANUARY	**27.1**	**277.6**
Repayments	(27.1)	(250.5)
AS AT 31 DECEMBER	**–**	**27.1**

All loans to Group companies relate to intercompany Group loans. Loans to Group companies are determined on an arm's length basis.

34.4 Other debtors, prepayments and accrued income

	31-12-2017	31-12-2016
Intercompany debtors	0.9	30.6
Prepaid and accrued income	0.6	1.4
Current tax receivable	10.2	9.8
TOTAL DEBTORS	**11.7**	**41.8**

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

34.5 Shareholders' equity

	Issued and paid-up share capital	Share premium	Other reserves	Currency translation and hedging reserve	Retained earnings	Total shareholders' equity
AS AT 1 JANUARY 2016	**27.6**	**200.8**	**876.8**	**(2.2)**	**165.7**	**1,268.7**
Dividend 2015	–	–	–	–	(57.6)	**(57.6)**
Addition to other reserves	–	–	108.1	–	(108.1)	**–**
Share based payments	–	–	(0.4)	–	–	**(0.4)**
Transactions with non-controlling interests	–	–	(0.3)	–	–	**(0.3)**
Profit financial year	–	–	–	–	182.6	**182.6**
Remeasurements of employee benefit obligations	–	–	(11.9)	–	–	**(11.9)**
Currency translation differences	–	–	–	(9.7)	–	**(9.7)**
Fair value changes derivative financial instruments	–	–	–	(1.1)	–	**(1.1)**
Income tax effect on direct equity movements	–	–	2.0	0.8	–	**2.8**
AS AT 31 DECEMBER 2016	**27.6**	**200.8**	**974.3**	**(12.2)**	**182.6**	**1,373.1**
Dividend 2016	–	–	–	–	(64.1)	**(64.1)**
Addition to other reserves	–	–	118.5	–	(118.5)	**–**
Share based payments	–	–	2.4	–	–	**2.4**
Transactions with non-controlling interests	–	–	–	–	–	**–**
Profit financial year	–	–	–	–	204.5	**204.5**
Remeasurements of employee benefit obligations	–	–	8.9	–	–	**8.9**
Currency translation differences	–	–	–	(35.1)	–	**(35.1)**
Fair value changes derivative financial instruments	–	–	–	2.9	–	**2.9**
Income tax effect on direct equity movements	–	–	(1.6)	(0.7)	–	**(2.3)**
AS AT 31 DECEMBER 2017	**27.6**	**200.8**	**1,102.5**	**(45.1)**	**204.5**	**1,490.3**

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

The issued and paid-up share capital did not change in the course of the year under review. As at 31 December 2017, a total of 110,580,102 ordinary shares and 100 priority shares were issued and paid-up. The currency translation and hedging reserve is not to be used for profit distribution.

34.6 Personnel expenses

	2017	2016
Wages and salaries	(5.7)	(5.3)
Social security charges	(0.3)	(0.2)
Defined contribution plans	(0.7)	(0.6)
Other expenses related to employees	(0.2)	(0.2)
TOTAL	**(6.9)**	**(6.3)**

The average number of employees amounted to 22.6 full time equivalents (2016: 23.1), as at year-end 20.4 (2016: 24.4).

34.7 Income tax benefit / (expense)

	2017	2016
Current tax:		
Current year	3.3	4.8
Prior years	0.4	(0.5)
Deferred tax	0.4	0.5
TOTAL INCOME TAX BENEFIT / (EXPENSE)	**4.1**	**4.8**

34.8 Audit fees

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

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

2016	Deloitte Accountants B.V.	Other Deloitte Accountants B.V. Network	Total Deloitte Accountants B.V. Network
Audit of annual accounts	545	1,920	2,465
Other audit services	–	4	4
Tax advisory services	–	339	339
Other non-audit services	–	5	5
TOTAL	**545**	**2,268**	**2,813**

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

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

The total remuneration of the members of the Management Board for 2017 amounted to EUR 5.2 million (2016: EUR 3.8 million) and is determined in accordance with the remuneration policy as disclosed in the Report of the Supervisory Board.

Mr. W.A. Pelsma (CEO) received a salary of EUR 720 (2016: EUR 680), a bonus amounting to EUR 540 (2016: EUR 510) and a pension contribution of EUR 111 (2016: EUR 111). At year-end he held a total number of 95,075 ordinary shares in Aalberts Industries N.V. (2016: 89,775 shares). The number of conditional performance share awards that were granted in 2017 (PSP 2017-2019) amounted to 35,000 shares for which EUR 265 was charged to the income statement. It is expected that 100% of the 30,000 conditional shares that were granted in 2015 (PSP 2015–2017) will vest in April 2018 for which EUR 280 (2016: EUR 281) was charged to the income statement.

Mr. J. Eijgendaal (CFO) received a salary of EUR 570 (2016: EUR 540), a bonus amounting to EUR 427 (2016: EUR 405) and a pension contribution of EUR 88 (2016: EUR 83). At year-end he held a total of 150,000 ordinary shares in Aalberts Industries N.V. (2016: 148,000 shares). The number of conditional performance share awards that were granted in 2017 (PSP 2017-2019) amounted to 27,000 shares for which EUR 204 was charged to the income statement. It is expected that 100% of the 25,000 conditional shares that were granted in 2015 (PSP 2015-2017) will vest in April 2018 for which EUR 229 (2016: EUR 229) was charged to the income statement.

Mr. O.N. Jäger (Executive Director) received a salary of EUR 460 (2016: EUR 440) and a bonus amounting to EUR 345 (2016: EUR 330). At year-end he held a total of 12,057 ordinary shares in Aalberts Industries N.V. (2016: 12,057 shares). The number of conditional performance share awards that were granted in 2017 (PSP 2017-2019) amounted to 15,000 shares for which EUR 114 was charged to the income statement. It is expected that 100% of the 15,000 conditional shares that were granted in 2015 (PSP 2015-2017) will vest in April 2018 for which EUR 137 (2016: EUR 138) was charged to the income statement.

Mr. A.R. Monincx (Executive Director) was appointed on 18 April 2017 and received a salary of EUR 240, a bonus amounting to EUR 180 and a pension contribution of EUR 35 as of 1 May 2017. At year-end he held a total of 3,475 ordinary shares in Aalberts Industries N.V. The number of conditional performance share awards that were granted in 2017 (PSP 2017-2019) amounted to 15,000 shares for which EUR 114 was charged to the income statement. It is expected that 100% of the 10,000 conditional shares that were granted in 2015 (PSP 2015-2017) will vest in April 2018 for which EUR 93 was charged to the income statement.

Additional information regarding conditional performances share awards is disclosed in note 15.3. The share price as at 31 December 2017 amounted to EUR 42.40 per ordinary share. The following fixed individual remunerations were paid to members of the (former) Supervisory Board:

	2017	2016
M.C.J. van Pernis	58	40
M.J. Oudeman	39	–
P. Veenema	46	30
J. van der Zouw	49	40
H. Scheffers	17	50
TOTAL	**209**	**160**

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

34.10 Liability

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

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

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

Name and seat of the company	Direct and indirect participation %
AI Industrial Services GmbH, Kerpen	100%
AHC Oberflächentechnik GmbH, Kerpen	100%
MT Grundstücksverwaltungs GmbH, Kerpen	100%
Impreglon Solingen GmbH, Kerpen	100%
AHC Oberflächentechnik GmbH, Burg	100%
Duralloy Süd GmbH, Villingen-Schwenningen	100%
Impreglon Zwönitz GmbH, Zwönitz	100%
Impreglon Moers GmbH, Moers	100%
Hauck Heat Treatment GmbH, Remscheid	100%
Hauck Heat Treatment Süd GmbH, Gaildorf	100%
Impreglon GmbH, Kerpen	100%
Impreglon Oberflächentechnik GmbH, Lüneburg	100%
Impreglon Beschichtungen GmbH, Landsberg	100%
Impreglon Engineering GmbH, Jessenitz	100%
Impreglon Material Technology GmbH, Lübeck	100%
Hauck Heat Treatment GmbH, Dunningen	100%
ALZI Metallveredelung GmbH, Wünschendorf (Zwickau)	100%
Gebr. Linke GmbH, Zwickau	100%
TOP Oberflächen GmbH, Würzburg	100%
Impreglon Surface Engineering GmbH, Kaufbeuren	100%

The company has guaranteed the non-current borrowings and the current portion of the non-current borrowings of the Group companies for an amount of EUR 525.1 million (2016: EUR 524.3 million). In addition, the company has guaranteed the two UK defined benefit Pension Schemes for an amount of EUR 95.1 million. The total operational lease and rent commitments amount to EUR 5.6 million (2016: EUR 0.7 million).

Langbroek, 27 February 2018

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

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

1. Special controlling rights under the Articles of Association

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

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

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

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

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

2. Profit appropriation

In accordance with the resolution of the General Meeting held on 18 April 2017, the profit for 2016 has been appropriated in conformity with the proposed appropriation of profit stated in the 2016 financial statements.

The net profit for 2017 attributable to the shareholders amounting to EUR 204.5 million shall be available in accordance with the articles of association.

The Management Board proposes to declare a dividend of EUR 0.65 solely in cash per share of EUR 0.25 par value. Any residual profit shall be added to reserves.

3. Independent auditor's report

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2017 INCLUDED IN THE ANNUAL ACCOUNTS

Our opinion

We have audited the accompanying financial statements 2017 of Aalberts Industries N.V. ('the company'), based in Langbroek. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Aalberts Industries N.V. as at 31 December 2017, and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of Aalberts Industries N.V. as at 31 December 2017, and of its results in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated balance sheet as at 31 December 2017.
2. The following statements for 2017: the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

4. The company balance sheet as at 31 December 2017.
5. The company income statement for 2017.
6. The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

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

We are independent of Aalberts Industries N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 12.5 million (2016: EUR 11 million). The materiality is based on 5% of the 2016 profit before income tax of continued operations. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for quantitative and/or qualitative reasons.

At year-end we have reassessed the group materiality based on the actual 2017 profit before income tax of continued operations. Based on our reassessment we concluded that the applied materiality for the financial statements as a whole of EUR 12.5 million is still appropriate.

Compared to previous year the materiality increased as a result of increased profit before income tax. We have not applied any changes to our method for determination of the materiality.

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

We agreed with the Supervisory Board that misstatements in excess of EUR 500 thousand (2016: EUR 500 thousand), which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Aalberts Industries N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Aalberts Industries N.V.

Because we are ultimate responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities (components). Decisive were the size and/or the risk profile of the group entities operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

Aalberts Industries N.V. is divided into four reportable segments, as disclosed in note 6 of the consolidated financial statements of Aalberts Industries N.V. These four reportable segments encompass 15 (groups of) reporting entities that report to responsible management. No component individually contributes more than 20% of the consolidated revenue of Aalberts Industries N.V.

Our group audit mainly focused on significant components in terms of size and financial interest or where significant risks or complex activities were present, leading to an audit scope on the complete set of financial information or specific items for 36 components.

We have performed audit and analytical procedures ourselves at corporate entities, several operations in the Netherlands and other insignificant foreign operating entities. Furthermore, we performed audit procedures at group level on areas such as consolidation, disclosures, goodwill, intangible assets, taxes, treasury and acquisitions. Specialists were involved amongst others in the areas of information technology, tax, accounting, and valuation.

For all relevant foreign components, the group audit team provided detailed written instructions, which, in addition to communicating the requirements of component audit teams, detailed significant audit areas and information obtained centrally relevant to the audit of individual components, including awareness of risk related to management override of controls. Furthermore, we developed a plan for overseeing each component audit team based on its relative significance to the company and certain other risk characteristics. This included procedures such as visiting components and/or component teams (France, Germany, Italy, the Netherlands and several locations in the United States) during the year, performing file reviews, holding conference calls, attending meetings and reviewing component audit team deliverables to gain sufficient understanding of the work performed.

Considering their share in the consolidated revenue, 95% of the components are subject to audit procedures. Analytical procedures have been performed in respect of components that have not been audited.

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.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the key audit matter was addressed in the audit
Risk in relation to the global group structure Aalberts Industries N.V. is a group with business operations through more than 200 legal entities which are active in more than 50 countries and grouped into 15 business teams that are part of the four reportable segments. The number of entities and the global structure of the group, require management to design and implement group wide monitoring and control activities in order to ensure timely and reliable operational and financial information. As a group auditor, we need to obtain sufficient and appropriate audit evidence about the internal control environment and financial reporting of the group and its most significant components.	In our risk assessment and the determination of our group audit scope we have specifically focused on risks in relation to a global company with a large number of components. At group and component level we: • focused on risks in relation to the global structure, specifically in the area of reliable financial reporting, management override of controls, fraud and compliance with laws and regulations; and • evaluated the company's internal control environment that addresses these risks, including entity level controls and monitoring controls at both group and segment level. At group level we extended our involvement in local audit work performed by the component auditors. We organized site visits, meetings and conference calls with management and audit teams of components in our audit scope. At year-end we attended closing meetings, reviewed submitted interoffice reporting and conducted file reviews at a component level in order to ensure a consistent audit quality throughout the group and be aware of all relevant matters. In addition, we met with Management Board, Executive Team, business teams and corporate head office functions on a periodic basis to be aware of all developments and to be able to alter our audit approach when deemed necessary. We believe that the scope and nature of our procedures performed were appropriate and sufficient to address the risks related to the global group structure.

Key audit matter	How the key audit matter was addressed in the audit
Valuation of goodwill The company recorded goodwill that is allocated to the cash generating units (CGUs) within the four reportable segments amounting to EUR 741 million as at 31 December 2017 (2016: EUR 736 million). Under EU-IFRS, the company is required to annually test goodwill for impairment. This annual impairment test was significant to our audit because the assessment process is complex and involves significant management judgment and is based on assumptions that are affected by expected future market developments and mathematical assumptions. Based on the annual goodwill impairment test, the Management Board concluded that no goodwill impairment was needed. The impairment analysis approach is disclosed in note 7.30.1, whereas key assumptions and sensitivities are disclosed in note 10.1 to the consolidated financial statements.	Our audit procedures included obtaining an understanding of management's process for testing goodwill for impairment, as well as evaluating relevant controls relating to the impairment model and the review of the forecasted cash flows, growth rates, discount rates and other relevant assumptions. Our substantive procedures included: • Test, together with our valuation specialists, the assumptions, the discount rates, forecast data and calculation methodology used by the company in the impairment model, for example by comparing the input data to external sources such as expected inflation rates and external market growth expectations, and by considering sensitivities in the company's valuation model. • Back-testing management estimates by comparing actual performance per cash generating unit to assumptions applied in prior year models to assess the historical accuracy of management's estimates. • Perform sensitivity analysis on the available headroom of CGUs and other key valuation assumptions applied to determine whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. • Assess the adequacy of disclosure notes, including the disclosures on the sensitivity of assumptions used. Reference is made to notes 7.30.1 and 10.1 of the consolidated financial statements. We assessed that our audit procedures were sufficient to conclude that no impairment was necessary following impairment tests on all cash generating units within the group, since the recoverable amounts of the CGUs exceed the carrying value of the goodwill and other relevant assets.

Changes in key audit matters

In prior years we reported the accounting of business combinations as a key audit matter, as the company acquired significant businesses in these years. As the acquisition of Vin Service S.r.l. and Pneu/tec B.V. in 2017 are financially less significant, the accounting of business combinations is no longer considered a key audit matter.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL ACCOUNTS

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

- Report of the Management Board.
- Report of the Supervisory Board.
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code.

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement

We were appointed by the General Meeting as auditor of Aalberts Industries N.V. on 21 April 2015 for the three year period. On 18 April 2017 we were appointed at the General Meeting as external auditor for the reporting year 2018.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

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

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

As part of the preparation of the financial statements, the Management Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Management Board should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Management Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

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

Our responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Amsterdam, 27 February 2018

Deloitte Accountants B.V.

Signed by: B.E. Savert

overview group companies

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

installation technology

integrated piping systems

Conbraco Industries, Inc.	USA
Elkhart Products Corporation	USA
ISIFLO AS	NOR
KAN Sp. z.o.o. (51%)	POL
Pegler Yorkshire Group Limited	GBR
Seppelfricke Armaturen GmbH	DEU
Shurjoint Metals, Inc.	TWN
Tri-Went Industries Limited	CAN
VSH Fittings B.V.	NLD

plastic connection systems

Henco Industries N.V.	BEL
LASCO Fittings, Inc.	USA

material technology

heat treatment

Accurate Brazing Corporation	USA
Hauck Heat Treatment GmbH	DEU
Ionic Technologies Inc.	USA

surface treatment

AHC Oberflächentechnik GmbH	DEU
DEC S.A.	FRA
Impreglon GmbH	DEU
SGI S.A.S.	FRA

specialised manufacturing

Adex B.V.	NLD
Hartman Fijnmechanische Industrie B.V.	NLD
Mifa Aluminium B.V.	NLD
Metalis S.A.S.	FRA
Ushers Machine & Tool Co., Inc.	USA

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

hydronic flow control

Flamco Holding B.V.	NLD
HSF Samenwerkende Fabrieken B.V.	NLD
Meibes System-Technik GmbH	DEU
Nexus Valve, Inc.	USA
Simplex Armaturen & Systeme GmbH	DEU

thermal & sanitary efficiency

Comap S.A.	FRA
Standard Hidráulica S.A.U.	ESP
Westco Flow Control Limited	GBR

industrial technology

fluid control

BROEN A/S	DNK
BSM Valves Holding B.V.	NLD
Clorius Controls A/S	DNK
VENTREX Automotive GmbH	AUT
VTI Ventil Technik GmbH	DEU

dispense technologies

DSI Getränkearmaturen GmbH	DEU
Taprite-Fassco Manufacturing, Inc.	USA
Schroeder Industries, Inc.	USA
Vin Service S.r.l.	ITA

advanced mechatronics

Integrated Dynamics Engineering GmbH	DEU
Lamers High Tech Systems B.V.	NLD
Mogema B.V.	NLD
Pneu/tec B.V.	NLD

key figures 2013-2017

	2017	2016	2015	2014	2013
results (in EUR million)					
revenue	2,694	2,522	2,475	2,201	2,040
added value	1,678	1,569	1,521	1,332	1,223
operating profit (EBITDA)	422	392	367	332	305
operating profit (EBITA)	336	298	272	247	225
net profit before amortisation	238	212	190	168	152
depreciation	87	94	95	85	80
cash flow from operations	427	383	330	307	287
free cash flow (before interest and tax)	310	273	243	222	175
balance sheet (in EUR million)					
intangible assets	1,127	1,128	1,050	900	691
property, plant and equipment	775	762	736	726	616
capital expenditure	119	106	96	85	106
net working capital	455	480	461	427	373
total equity	1,513	1,391	1,285	1,163	1,054
net debt	569	713	718	690	480
capital employed	2,081	2,104	2,002	1,854	1,535
total assets	2,910	2,859	2,741	2,552	1,996
number of employees at end of period	16,003	15,338	14,709	14,492	12,311
ratios					
total equity as a % of total assets	52.0	48.7	46.9	45.6	52.8
leverage ratio	1.3	1.7	1.8	1.9	1.6
EBITA as a % of revenue	12.5	11.8	11.0	11.2	11.0
free cash flow conversion ratio	73.4	69.8	66.1	66.9	57.6
return on capital employed (ROCE)	16.2	14.7	14.3	14.1	14.6
added value as a % of revenue	62.3	62.2	61.5	60.5	60.0
EBITDA as a % of revenue	15.7	15.5	14.8	15.1	14.9
net profit before amortisation as % of revenue	8.8	8.4	7.7	7.6	7.4
effective tax rate as a % of profit before tax	24.6	25.2	25.8	27.4	26.8
net debt / total equity	0.4	0.5	0.6	0.6	0.5
interest cover ratio	25.9	24.6	21.8	22.6	19.0
shares issued (in millions)					
ordinary shares (average)	110.6	110.6	110.6	110.6	110.1
ordinary shares (at year-end)	110.6	110.6	110.6	110.6	110.6
figures per share (in EUR)					
cash flow before amortisation	2.94	2.77	2.58	2.29	2.10
net profit before amortisation	2.15	1.92	1.72	1.52	1.38
dividend	0.65	0.58	0.52	0.46	0.41
share price at year-end	42.40	30.82	31.79	24.54	23.18

concept and realisation
C&F Report

aalberts
mission critical technologies