



Annual Report 2016.
Koninklijke Smals NV.

Foreword.

2016 was marked by the continued development and growth of our business, both internally and externally. In many respects it was a difficult and challenging year in which there were many issues to deal with, particularly within the company. Unfortunately, we were once again forced to make a number of redundancies. Internally, further changes were made on the basis of our 'one company, one team, one goal' philosophy.

We standardised the wage scale system and entered into negotiations with the trade union on a new foreign working scheme for all our employees who are involved in projects abroad, both inside and outside Europe. Our aim here is to achieve more appropriate employment conditions. In 2016 we also started implementing Exact, a project that will see us switch over to a single IT system across the whole organisation.

We are extremely grateful to all our employees for the commitment, patience and dedication they showed once again in 2016. After all, it is thanks to them that, in spite of the difficulties and challenges we faced last year, we succeeded as a team in significantly improving our operating result, increasing the turnover of our Dredging division by over 20%, substantially improving the result of our Construction Materials division, achieving better equipment utilisation in our Rentals division and posting a profit for the year.

2016 was also a year in which we were able to welcome many new colleagues – people we really need if we are to realise our ambitious plans. These new colleagues are important not only in the Netherlands, but in other countries too. This year we were able to conclude contracts with agents in the United Kingdom, Brazil, India and the Balkans.

Many people are working hard on all fronts to help us achieve our international growth ambitions.



Frans van der Linden
Chief Executive Officer

Further international growth – one company, one team, one goal.

We are now making preparations for 2017. Internally, we do not anticipate any more major changes this year, but we are keen to ensure that everything we have achieved is now firmly embedded within the organisation and hope to build further on the strong foundations laid over the past few years.

For 2017 we have set ourselves the target of achieving further growth abroad and significantly improving our operating result. To make this possible, we will continue to work on ways to meet the needs of our customers ever more effectively and to optimise the use of the raw material flows resulting from our activities, while working at all times in accordance with a philosophy of sustainability and corporate social responsibility.

Frans van der Linden
Chief Executive Officer, Koninklijke Smals NV

Unique project to guarantee future sand extraction from the IJsselmeer.



Future sand extraction from the IJsselmeer is vitally important to the Dutch economy. To prepare for the extraction work, in the summer of 2016 we took part in a complex operation together with Leemans Speciaalwerken. Where the future production platform will be located, 15 km off the coast of Lemmer, we drained an area of 25 x 36 m. This was necessary to allow a World War Two aircraft and bombs to be recovered.

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Integrated solution involving sand, gravel and dredging work at Leopoldshafen, Germany.

Leopoldshafen was an important project that involved work on the Rhine and its branches. These had become silted up and presented a risk to the ecology and natural environment. This was an unusual project that required us to draw on our expertise and make use of a range of different equipment. A well-thought-out plan was drawn up, before the gravel was dredged and transported to an underwater depot for use by industry. The silt/sand was then sprayed back into the dredged areas. As a result, the water can now flow freely again.

Key figures.

The result for 2016 was influenced by the following key factors:

- Positive developments on the Construction Materials market due to the discontinuation of loss-making activities, stable volumes and cost management.
- Good utilisation of the equipment of the Rentals division, both externally and for use on Dredging projects.
- A Dredging market that remained disappointing, putting pressure on margins.
- One-off income resulting from the sale and divestment of loss-making activities or positions.

€ 1,000 x	2016	2015
Turnover	23,311	25,766
Operating result	6,443	5
Result before corporation tax	6,282	- 202
Net profit	4,758	3
Equity capital	18,012	13,254
Provisions	1,694	2,756
Other borrowed capital	13,807	21,693
(of which KBP equalisation reserve)	1,095	3,008
Operating cash flow (profit+amortisation+impairment)	7,898	3,246
Equity capital/Total assets	54%	35%
Net profit/Equity capital	26%	0%

Operating cash flow
€7,898,000.



Smals Bouwgrondstoffen BV
Smals Dredging GmbH
Smals Dredging BV
Smals Dredging UK Ltd.
Smals Verhuur BV
Smals Berkendonk BV
Smals IKW BV
Smals IJsselmeer BV

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Sand extraction and nature development project 'Over de Maas'.



Sand extraction from the foreland of the River Maas as part of the 'Over de Maas' project. A new river-related nature area is being developed over a large section of the site. This will also create more space for the river when water levels are high.

The group's mission and vision.

There have been no developments on the (international) market, socially or geographically, or changes relating to the knowledge, expertise and specialisms of our company that make it necessary to adapt our mission or vision. The following mission and vision have therefore been taken as a basis for our strategy and the course we have mapped out for the company.

Our company's mission is defined as follows: Together, we will build a safe and pleasant living environment, for today and tomorrow.

Royal Smals is a family business that operates internationally. Our ambition is to remain a leading and unique provider of integrated solutions for water-related projects and for optimising use of the resulting raw material flows.

We devise, develop, construct, manage and maintain earthworks and hydraulic engineering works. During this work we aim to minimise the environmental impact, with a focus on ensuring the long-term safety of the society in which we live. To ensure we can provide our customers with the best possible service, we regularly enter into partnerships.

Smals aims to grow responsibly on a sound financial basis, while retaining its independence. This growth will be realised by diversifying and scaling up our activities. Motivated and highly skilled employees will help our continuously improving organisation to achieve this aim.



**We are taking responsibility for
a safe and comfortable living
environment for today and tomorrow.**

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**New 8" cutter-suction dredger
even more environmentally friendly.**



Restoring the environment and water quality of a woodland lake in Berlin, Reinickendorf district.



BALEEN

RAPID DEWATERING SYSTEM

At the heart of an urban residential district we have restored the water quality of a woodland lake. This is an area of ecological importance that is home to protected amphibians. We carefully dredged the contaminated silt using the environmentally friendly cutter-suction dredger 'Puppis'. With the help of our Baleen dewatering system and biopolymers we were able to recycle the water in an innovative way. This nature and recreation area has therefore been cleaned up sustainably and responsibly.

Development of the company.

Taking our mission and vision as a starting point, we aim to develop our company further. Development not only means growth, but also investing in the company's most important asset – its employees. Investing in our people enables us to move the company forward. It also means we can draw on this knowledge and expertise to offer solutions that are perfectly tailored to the needs and wishes of our customers.

Internal and external communication, as well as cooperation, are crucial to the company's development. We made considerable investments in these areas once again in 2016 and will continue to do so in the years to come. Our strategy is based on the international growth of our business, which would be impossible to achieve without investing in people.

To ensure this growth can be sustained, however, we also need to enter into long-term, sustainable partnerships with external parties. In 2016 we added partners in a number of different areas to our international network. Our network of agents, who we certainly regard as sustainable partners, was also expanded further over the last twelve months.

Working together with others to make us stronger as a company is an ambition we work towards in all the areas in which we are active.

In 2016 various deals and projects could be traced back to these kinds of alliances. This policy will therefore remain unchanged.


**Growth also means investing
in our people and partners.**

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Entering into partnership
with a company in India.



An aerial photograph of the port of Boulogne-sur-Mer. The image shows a large harbor area with several docks and piers. Numerous white yachts are moored in a central section of the harbor, which is separated from the rest of the harbor by a sea lock. To the left of the harbor, there are large parking lots filled with cars. The background is a dense urban area with many buildings, including several tall apartment blocks. The sky is overcast.

The port of Boulogne-sur-Mer benefits greatly from commercial and recreational shipping.

The yacht harbour is separated from the rest of the harbour by a sea lock and is open to the River Liane. As a result, silt builds up in this harbour. To guarantee a certain depth, the yacht harbour has to be dredged periodically. We carried out this maintenance work. During the dredging work marine litter was separated from the silt and collected in containers. The silt was then dumped at sea at an appropriate site using split hopper barges.

Strategy and focus areas.

Our strategy supports our mission and vision and lays the foundations that will help us achieve a sound financial basis for the long term. Based on this mission and vision, our strategy is for Royal Smals to operate not only as a sand producer on the national market, but also as a unique international hydraulic engineering contractor within which all divisions make a positive contribution to the group's result.

In 2016 particular attention was paid to the following focus areas when implementing our strategy:

- Further development of our employees through training programmes and courses and the recruitment of new staff.
- Growth by working together with partners. We have now expanded the network that helps Smals realise its growth ambitions.
- Knowledge development, communication and cooperation.
- Expansion of the equipment at our disposal. We have added three vessels to our dredger fleet, the auxiliary pontoon 'De Linden' has re-entered service and we have made investments in many other areas.
- Our own engineering and construction capabilities, to allow us to offer the right solution for every project and constantly adapt our equipment to ensure it remains up to date.
- Market research in countries and regions where Smals has identified growth opportunities.
- Active development of networks and establishment of agents in the countries where Smals wants to achieve growth. Over the coming period we will focus on countries and regions including Western Europe (Netherlands, Belgium, Germany, United Kingdom, Scandinavia, Austria, Spain and Switzerland), the Balkans, Brazil and India.
- Implementation of a new IT system.

A financially healthy national sand producer and a unique international hydraulic engineering contractor.

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Growth through strong networks and agents.



Maintenance of harbour in picturesque holiday resort, Les Mathes, France.



The small town of Les Mathes in South-West France is a popular holiday destination. Its harbour is of great social and economic importance. We dredged the harbour to the required depth for fishing and recreational vessels. This was complex work due to the strong Atlantic Ocean tides. The dredging could only be carried out at high tide, as otherwise the sediment would flow back in.

Preliminary report of the Supervisory Board.

In accordance with the provisions of Article 19 of the company's articles of association, we hereby present the 2016 financial statements of Koninklijke Smals NV, as prepared by the management. These financial statements have been audited by Ernst & Young Accountants LLP, which has issued an unqualified audit opinion.

The Supervisory Board discussed the findings with the auditor in the presence of the Board of Directors and subsequently signed the financial statements on 23 March 2017. We propose that the shareholders adopt these financial statements and accept the Board of Directors' proposal on the appropriation of profit. We also recommend that the Board of Directors be discharged from liability in respect of the management it has conducted and that the Supervisory Board be discharged from liability in respect of its supervision.

The Board of Directors comprises the Chief Executive Officer Mr F. van der Linden, who is responsible for the company's management, and Mr M.R. Smals in the capacity of joint director under the articles of association.

2016 was still a difficult year for the hydraulic engineering and construction sectors. The supply of and trade in sand and gravel remained at the same low level as last year in the sector, although there were signs of a slight recovery on the construction market in the fourth quarter of 2016. Koninklijke Smals NV did not experience any decline in volumes and significantly improved its result. The Board of Directors and Supervisory Board maintained a constant focus on improving the company's results and cash position, partly through divestments.

In 2016 the Dredging division was once again confronted with a stagnating market. Koninklijke Smals NV nevertheless managed to increase its turnover from dredging significantly, although margins came under pressure.

We achieved an improvement in the group's result. This growth in turnover and profit was largely achieved on existing markets. The international growth the company is targeting did not yet lead to any concrete orders during the year. We nevertheless have high expectations for 2017.

In 2016 the Supervisory Board met with the Board of Directors on five occasions. The shareholders also attended and contributed to these meetings. Consultation also took place outside these meetings on a regular basis. In addition, the Supervisory Board attended a meeting between the Board of Directors and the departmental heads during which light was shed on the targets set at departmental level. There was frequent consultation between the Board of Directors and the Chairman of the Supervisory Board outside of the regular meetings.

In September 2016 Ms R.M.L. Reijnders joined the management team as Financial Director. She brings with her a wealth of relevant experience from the sector.

During the year under review the Chairman of the Supervisory Board, Mr C.J.J. Halkes, left the company. We would like to express our sincere thanks to him and are extremely grateful for everything he has done for the company. His experience, expertise and dedication will be greatly missed.

We would also like to thank our customers for the confidence they have shown in Koninklijke Smals NV, the Works Council for the critical and constructive approach it has taken in the interests of the company and its employees, as well as the Board of Directors, the management and all members of staff for their dedication and creativity over the past year, one in which Koninklijke Smals NV was once again able to look to the future with confidence.

Cuijk, 23 March 2017

P.M.J. Thissen

J. van 't Hoff M.Sc.Eng

P.M.J. Op Heij RA



P.M.J. Thissen
Chairman of the Supervisory Board

P.M.J. Thissen has been a supervisory director of Koninklijke Smals NV since 1 January 2016. As director and principal shareholder of the family company Thissen Installatietechniek BV, which has branches in Venlo and Geleen, and in recent years as director of Unica Installatietechniek BV, he has built up 30 years of experience in the construction and technical installation sector. He has spent many years at the head of a company that has managed to set itself apart by implementing sustainable and innovative installation concepts.

P.M.J. Op Heij RA

P.M.J. Op Heij RA has been a supervisory director of Koninklijke Smals NV since 24 September 2015. Until 1 June 2015 he was employed as a partner with Deloitte. In this role he carried out much of his work for family companies and acquired knowledge and experience in the areas of governance and strategic development.

J. van 't Hoff MSc. Eng.

J. van 't Hoff has been a supervisory director of Koninklijke Smals NV since 24 September 2015. Having previously worked for a consultancy firm in the hydraulic engineering sector and for a number of dredging companies, he has now spent over 25 years as a freelance consultant hydraulic engineer, focusing in particular on dredging applications. His consultancy operates nationally and internationally and is involved in both large and small dredging projects. He is also involved in training young professionals in the dredging industry.

**A milestone achieved: 1,000,000 tonnes
of sand processed by the
Vierlingsbeek sand processing plant.**



In 2016 the Vierlingsbeek sand processing plant produced one million tonnes of sand.

Review of 2016.

We ended 2016 with a significantly higher profit than that achieved in 2015. This result was mainly influenced by the following factors:

- One-off income/release of provisions/conclusion of projects.
- Disappointing margins for the Dredging division, in spite of 20% increase in turnover.
- Positive results for the Construction Materials division due to increased production volumes and a fall in the cost of production.
- Better utilisation of the equipment of the Rentals division.

The turnover of the Dredging division rose in 2016, although margins contracted. This can be attributed in part to more competitive prices, as a result of increased pressure on the market. The preparations and investments made in 2015 and 2016 to expand the international scope of our activities have unfortunately not yet generated the targeted turnover growth outside Europe.

Within the Construction Materials division sand is being produced as part of the Over de Maas project. Sand extraction will then be relocated to the Geertjesgolf project, for which the necessary permit has been granted. These two projects combined will guarantee the continuity of production for at least 10 years. Production at the sand extraction plants in Kalle and Wippenen was at the expected levels in 2016. Both sites posted a profit last year.

The group also has an extensive fleet of dredging and transport equipment for the international dredging and rentals market. Our approach of actively renting out equipment proved successful once again in 2016.

2016 profit significantly higher than in 2015.



Royal Smals
plant in Wippenen.

Small harbours are
extremely important in Denmark,
Sweden and Norway.



There are many small harbours across Scandinavia. Ensuring these harbours and waterways are well maintained is of vital social and economic importance. With our focus on this area of expertise and the equipment we have at our disposal we are the ideal partner to carry out this valuable work. Against the background of our international growth ambitions we have identified opportunities in this area. That is why we are currently strengthening our market position in Denmark, Sweden and Norway.

Outlook.

The outlook for 2017 is significantly better than it was in 2016, as far as the company's operating result is concerned. Within the Construction Materials division we are expecting the construction market to continue to recover slightly in 2017. At present the sand processing plant is operating in the West pool within the current Over de Maas project. We expect utilisation of this sand processing plant to be higher in 2017 than in 2016.

Based on current volumes, we expect to be able to continue production within the Over de Maas project until the end of 2019.

From 2019 onwards Smals will extract its sand as part of the Geertjesgolf project, where a sufficient stock is available to last for at least 10 years. A permit has been obtained to expand the Kalle quarry in Germany, which will guarantee its continuity for the next 20 years. The Wippenen quarry can continue to operate for a further six years on the basis of the current permit. Preparations are being made with a view to expanding it after this period. The group therefore has ample stocks at its disposal to guarantee the continuity of its operations.

As part of its long-term strategy Smals is developing its own sand extraction project on the IJsselmeer. This project will provide stocks that will last for around 30 years. External rental activities are expected to remain stable compared with 2016. Equipment utilisation as a result of internal rentals is expected to improve once again in 2017 due to growth in turnover at the Dredging division.

The outlook for the Dredging division has improved since 2016 and our expectations for next year are higher. Besides further growth in turnover, we are also anticipating a significant improvement in margins. We are starting the year with a strong order book and are receiving a good number of enquiries that could potentially lead to promising projects.

Our result for 2017 is expected to be a good deal higher than the 2016 figure. We will continue with developments to support our international growth ambitions and these will lead to enquiries and create opportunities.

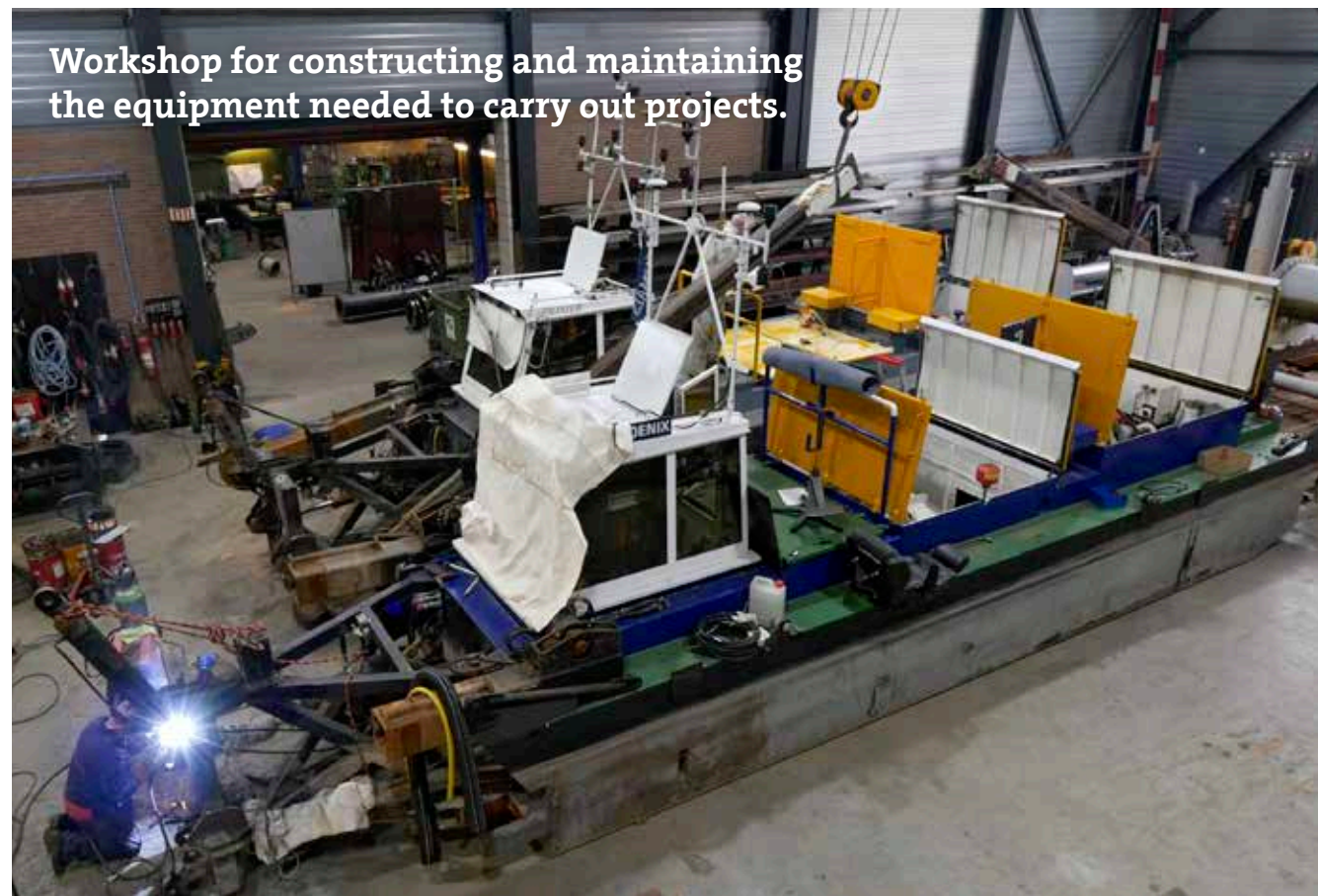
This year Smals again expects to conclude a number of old projects with a positive financial result, which means these will contribute to our result for 2017. We therefore anticipate that the company will post a profit next year.

Good prospects with an improvement in results and continuity.

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Workshop for constructing and maintaining the equipment needed to carry out projects.



Human resources.

As at 31 December 2016 the company had 88 employees (81.5 FTEs), of whom 84% were employed on a full-time and 16% on a part-time basis.

Health and safety and absenteeism.

In 2016 we were unfortunately unable to maintain the absenteeism figure we achieved in 2015 (3.8%). Over the past year there were more cases of long-term sickness than usual, which pushed up the absenteeism figure for 2016 to 4.9%.

Prevention.

As our employees are our organisation's most important asset, we do all we can to ensure their safety. The steps we take include focusing on the issue of safe working on a regular basis during toolbox meetings (which cover aspects including the use of PPE, safe lifting/hoisting, etc.). In 2016 we also started providing company emergency response training for all operational employees (who had not yet obtained a company emergency response diploma). This will ensure that these employees are always able to assist each other, should the need arise.

Accidents.

In spite of all the precautions/preventive measures taken, there were four minor incidents, without permanent injury, in 2016. Two of these did not result in absence from work. All accidents were investigated by the QHSE department and where necessary/possible changes were made or additional attention was focused on a particular issue during a toolbox meeting. Internally, targets (KPIs) have been defined for areas such as absenteeism and accidents.

PME (Preventive Medical Examination).

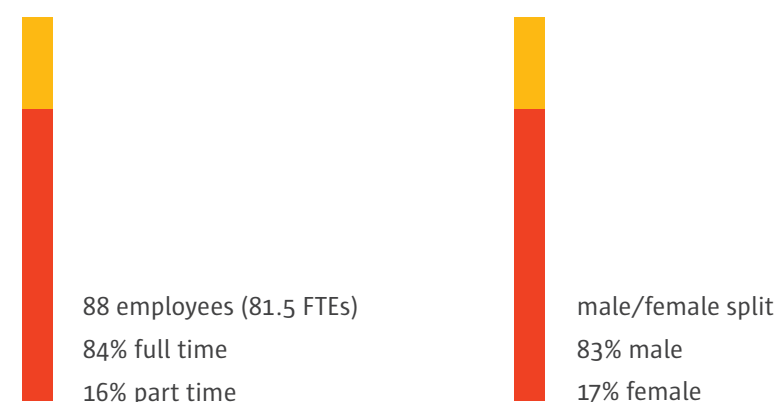
The PME was completed in 2016. In addition to a number of minor points for improvement, the report also drew the following conclusions:

- 86% of participants really enjoy their work
- 95% of participants find their work sufficiently challenging
- 100% of participants find their work sufficiently varied
- 95% of participants can rely on the support of colleagues if they are having problems with their work.

**Royal Smals has a workforce
of 88 employees.**

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If an employee's last working day was 31 December 2016, his/her departure has been included in 2017 and the employee in question has not been counted in the number of employees who left the company in 2016.

Training and development.

Our HRM policy aims to ensure that all employees and our structure are developed in such a way that they support the implementation of our vision and strategy as effectively as possible. Against this background we place a considerable emphasis on individual employee development. The performance and appraisal system gives us an insight into areas in which employees want to receive training.

In 2016 we also organised various training courses, both for groups and individuals (personal coaching or training), to promote internal cooperation and communication. This policy resulted in an increase in training costs, which we regard as a worthwhile investment in our employees.

Training costs.

2016: ± € 102,000

2015: ± € 70,000

In 2017 we will examine more closely how the appraisal system could be tailored to the updated job descriptions (in other words, how can the performance of the tasks described be assessed in a more targeted way, do people have the right skills, etc.?).

Employment conditions policy.

Standardisation of employment conditions.

In 2016 we completed the standardisation process. All job descriptions have been updated and assessed and in December 2016 an agreement was reached with the trade union on the job evaluation system and the new wage scale system.

Working abroad.

We are also currently in the final phase of negotiations with the trade union and Works Council on the subject of the foreign working scheme (secondary elements of remuneration for work outside the Netherlands) for our employees. An agreement is expected to be reached by the middle of 2017.

Training costs are a worthwhile investment in our employees.

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Automation of HRM.

At the beginning of 2017 the implementation of the 'Mijn Rooster' ('My Roster') human resources planning system was completed. Employees can use this system to clock on and off electronically and it also allows managers to plan employees' work easily. The benefits include a reduction in the administrative burden, one-off data entry directly at source, a reduction in paper flows, a reduced likelihood of errors and a direct insight into hours worked for both payroll processing and project accounting purposes (lean system).

An aerial photograph showing a large, irregularly shaped water body (Kraaijenbergse Plassen) in the center. The water is dark blue-green. Surrounding the water are various land parcels, some green (fields), some brown (bare earth or dry fields), and some with buildings (residential or industrial). A road or railway line runs vertically through the right side of the image. The overall landscape is a mix of natural and developed areas.

Completion of Kraaijenbergse Plassen project.

2016 marked the end of more than 40 years of sand extraction and one of the most prestigious earth-removal projects in the Netherlands: Kraaijenbergse Plassen. Over this period approximately 75 million tonnes of industrial sand and 10 million tonnes of gravel were produced, as well as 25 million m³ of fill sand for the construction industry. This project was carried out on the basis of an excellent partnership with the local authority, the province, the Brabants Landschap foundation and the local residents concerned. In June 2016 Royal Smals transferred an area with high spatial quality to the local authority, one that will serve as a nature and recreation area, as well as offering opportunities for waterside living.

Organisational structure.

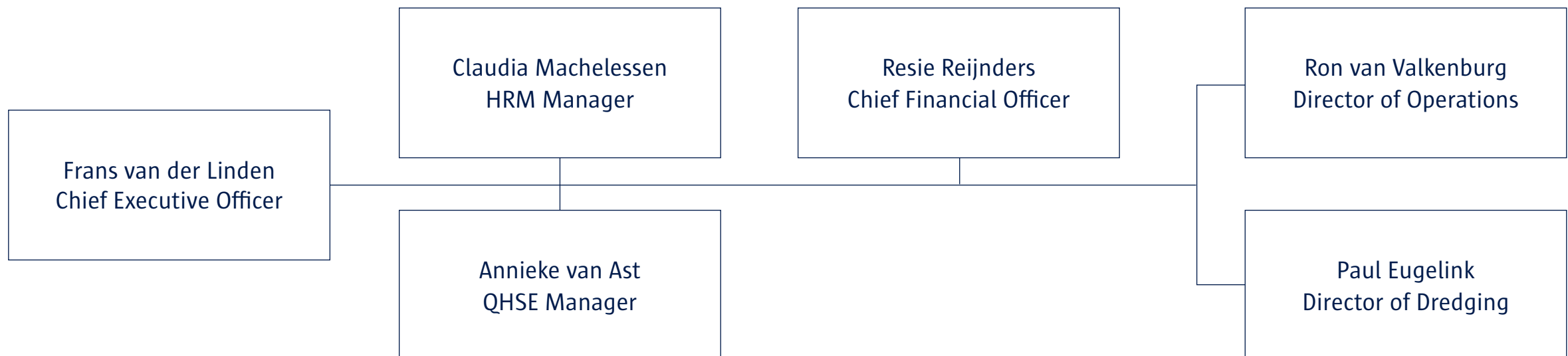
Our organisational structure is aligned with our strategy. Lines are short, ensuring that internal cooperation and communication are optimised and decisions can be taken effectively.



**Appropriate organisational structure
with effective, short lines.**

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Sustainability and CSR.

In 2016 we updated our environmental management system and brought it into line with the new ISO 14001:2015 standard. As a result, on 11 November 2016, Royal Smals and its subsidiaries Smals Dredging, Smals Bouwgrondstoffen and Smals Verhuur obtained the new certificate.

At the beginning of 2016 Smals Dredging BV was also presented with the new “CO₂-bewust” (“CO₂-aware”) certificate for its energy management system, which is geared towards energy saving and reducing CO₂ emissions. The system complies with the most recent CO₂ performance ladder handbook (version 3.0) of the Foundation for Climate Friendly Procurement and Business (SKAO).

The ladder encourages us to look for new ways to minimise our carbon footprint on an ongoing basis. Due to variations in project conditions, working towards a quantitative emission reduction target is impossible. These project-dependent factors include the composition of the ground (silt, sand or gravel) and variations in the pipeline route (heights and distances, any bends and raised sections required, etc.) and whether or not we are working with geotextile dewatering bags.

To actively reduce CO₂ emissions, every year we draw up an Action Plan containing a range of CO₂-reduction and energy-saving measures. This plan goes beyond the scope of the CO₂ performance ladder. Royal Smals is working to reduce the CO₂ emissions of all its companies. In 2016, for example, fuel consumption on board the Vierlingsbeek sand processing plant was cut by more than 9%. The improvement measures implemented in 2016 included the following:

- Modifications were made on board the Vierlingsbeek sand processing plant to allow it to process deliveries of 2-5 mm material. These modifications will increase the site yield, resulting in more efficient sand extraction and a positive impact on energy consumption.
- Fuel consumption meters and an on-board monitoring system were installed on the Biesbosch suction dredger and the Vierlingsbeek sand processing plant.
- The Schelde suction dredger has been equipped with an energy-efficient CCR-2 engine.
- Four hybrid company cars have been added to the vehicle fleet.
- Four additional charging stations have been installed for electric and hybrid vehicles at the company's offices.

Fuel consumption of Vierlingsbeek sand processing plant cut by more than 9%.

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- A research project has been carried out that examines the possibilities of using dredgings as 'construction material'. This research is helping us to come up with ways to use (slightly contaminated) dredging spoil beneficially on site.

As far as the health and well-being of employees is concerned, at the end of 2015 the risk inventory and assessment was updated for the office as well as the production locations and workshop/warehouse. In 2016 the action plan, including suggestions for improvement, was drawn up and implemented. The Preventive Medical Examination (PME) was also carried out in early 2016. In spite of the low level of participation, a number of useful points for improvement emerged from it. These were communicated to the Works Council and measures have been taken where possible. In September an emergency/evacuation drill was held on board one of Smals Dredging's cutter-suction dredgers. This involved simulating a fire that had resulted in surface water contamination. The drill was carried out to our satisfaction and employees are well informed about how they should act in the event of an environmental and/or other emergency.

To further optimise the management of projects, the employees concerned followed intensive training in the areas of project management and cooperation. Various tools were developed to improve insights into project risks and opportunities, planning and cash flow, amongst other things.

The purchasing process was also assessed in accordance with the lean system and proposals for a more efficient process were drawn up. These will result in lower costs and less waste. The proposals will be put into practice over the course of 2017.

Looking ahead to 2017.

In 2017 we will continue to pursue our policy on sustainability and reducing CO₂ emissions. Targets have once again been formulated for the coming year:

- We will work on an ongoing basis to identify technical possibilities that could help us improve our carbon footprint. One of these is a collaborative initiative that aims to cut the fuel consumption of vehicles.
- Where possible, we will endeavour to use green electricity or an alternative form of renewable energy. By the end of 2017 at least 50% of our energy contracts will relate to the purchase of renewable energy.
- By the end of the year solar panels will have been installed on the roof of the workshop.

**By the end of 2017 at least 50%
of our energy contracts will relate to
the purchase of renewable energy.**

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- Over the coming year we will focus consistently on raising employee awareness in the area of energy consumption.
- In 2017, working together with our customers and partners, we will endeavour to ensure that local soil and dredgings are reused sustainably.
- We are participating in various consultation platforms to enhance our knowledge in relation to reducing CO₂ emissions and keep this knowledge up to date. For example, we are involved in the initiative of NL CO₂ Neutraal and the Sustainability working group of the Dutch Association of Hydraulic Engineers.

For new Smals Dredging projects the project management tools resulting from the training will be implemented and put into practice.

Over the coming year additional attention will be focused on making ongoing improvements to working conditions, managing occupational risks and complying with statutory requirements. Within this context, in early 2017 we will start setting up a health and safety management system in accordance with OHSAS 18001. This standard is regarded as the benchmark in the area of health and safety internationally. We expect to obtain the certificate by the middle of 2017.

Investment in new cutter-suction dredgers.



In 2016 three small cutter-suction dredgers were added to the fleet. The Polaris, Puppis and Proteus are an excellent complement to our existing equipment. For a complete overview of our equipment please visit smals.com/equipment

Accounting policies.

The consolidated balance sheet as at 31 December 2016 and the consolidated income statement for 2016 have been derived from the 2016 financial statements, a copy of which is available for inspection at our head office in Cuijk.

The full financial statements were prepared with due consideration for Title 9, Book 2, of the Dutch Civil Code and Dutch annual reporting guidelines. The consolidated balance sheet and income statement included in this annual report form part of the full financial statements. Below you will find details of the group's main accounting policies. Please refer to the financial statements for the complete accounting policies.

Principles of consolidation.

Koninklijke Smals NV and all companies in which Koninklijke Smals NV has a controlling interest are included in the scope of consolidation. The full consolidation method is applied. The third-party share in the assets of consolidated participations, calculated on the basis of the percentage stake held in the company concerned, is reported separately in the balance sheet. Results are consolidated accordingly.

General.

Unless otherwise indicated, assets and liabilities are stated at nominal value.

Financial fixed assets.

The participations in which a significant influence is exercised over the company's commercial and financial policy are stated at net asset value. The result recognised reflects the share of Koninklijke Smals NV in the result of these participations.

Other minority participations that are held on a long-term basis and in which no significant influence can be exercised over commercial and financial policy are stated at acquisition cost, less provisions due to impairment.

Receivables from participations are stated at nominal value, less any provisions considered necessary.

The group owns land, directly and indirectly (via participations), that it intends to use for sand and gravel extraction once it has obtained an earth-removal licence. If the land is held by minority participations, it is normally financed by the group and the finance provided (capital, loans) is recognised under financial fixed assets.

Stocks.

Stocks are stated at the lower of cost and net realisable value. The cost is the acquisition or production cost. This includes direct costs, taking the stage of processing into account. Provisions are formed for obsolete stocks. Profits and losses on intercompany transactions are eliminated during consolidation.

Extraction rights (land for which licences have been issued) are stated at acquisition cost. For the purpose of impairment testing, the land is allocated to the (group of) cash-generating units. If there is cause to do so, a test is performed to determine whether impairment is necessary. This involves comparing the carrying amount with the recoverable amount. The latter is the higher of the direct and indirect realisable value.

Equalisation fund.

Within the context of the sale of extraction rights the company has received payments from third parties. The costs to be covered by these payments and the transfers to be effected are recognised under liabilities as a provision or deducted from the asset in question. The remainder is equalised in connection with the higher extraction costs expected in the future. Under the heading 'other long-term liabilities' an accrued liability has been included, representing the sums received less accrued income in respect of the above-mentioned equalisation.

Consolidated balance sheet as at 31 December 2016.

	31-12-2016	31-12-2015
	€	€
Assets		
Fixed assets		
Intangible fixed assets	191,157	218,465
Tangible fixed assets	14,330,965	16,566,718
Financial fixed assets	7,091,555	6,798,820
	21,613,677	23,584,003
Current assets		
Stocks	3,311,329	7,366,414
Receivables	8,388,582	6,684,192
Liquid assets	218,973	111,044
	11,918,884	14,161,650
Total assets	33,532,561	37,745,653

	31-12-2016	31-12-2015
	€	€
Liabilities		
Group equity	18,011,924	13,254,126
Third-party interests	19,875	42,128
Provisions	1,693,875	2,755,707
Long-term liabilities	431,672	3,558,250
Current liabilities	13,375,215	18,135,442
Total liabilities	33,532,561	37,745,653

Consolidated income statement for 2016.

	2016	2015
	€	€
Net turnover	24,269,569	25,683,597
Movement in stocks of finished products and work in progress	- 958,901	82,726
Total operating income	23,310,668	25,766,323
Costs of raw materials and consumables	3,893,180	5,641,221
Costs of subcontracted work and other external costs	2,582,604	2,193,885
Wages and salaries	5,162,662	5,393,908
Social security contributions	1,312,136	1,192,929
Depreciation of tangible fixed assets	2,589,854	2,835,895
Amortisation of intangible fixed assets	27,308	27,308
Impairment of tangible fixed assets	523,186	379,065
Other operating expenses	7,502,865	8,784,099
One-off income and expenses	- 6,725,765	- 687,459
Total operating expenses	16,868,030	25,760,851
Operating result	6,442,638	5,472
Interest income and similar revenues	32,400	32,400
Interest expenses and similar costs	- 192,632	- 240,210
Result from ordinary operations before taxes	6,282,406	- 202,338
Taxes on result from ordinary operations	1,659,484	- 13,938
Result from ordinary operations after taxes	4,622,922	- 188,400
Third-party interests in result	22,520	17,059
Share in result of unconsolidated participations	112,357	174,731
Net profit	4,757,799	3,390

Part of a large-scale
environmental project: renovation
of Siegen reservoir, Germany.



BALEEN

RAPID DEWATERING SYSTEM

A reservoir in the German city of Siegen was in need of renovation. Royal Smals dredged the reservoir as part of a large-scale environmental project. The silt was stored in five geotextile containers on a granulate surface created specifically for this project.

Independent auditor's report.

The summary financial statements included in this annual report, comprising the summary consolidated balance sheet as at 31 December 2016 and the summary consolidated income statement for 2016, have been derived from the audited financial statements of Koninklijke Smals NV.

In our auditor's report of 23 March 2017 we issued an unqualified opinion in respect of these financial statements. The information presented in the financial statements and this summary thereof does not reflect any events that have taken place since our auditor's report was drawn up on 23 March 2017.

The summary financial statements do not contain all the disclosures required on the basis of Title 9, Book 2, of the Dutch Civil Code. Consequently, reading the summary financial statements cannot be regarded as a substitute for reading the audited financial statements of Koninklijke Smals NV.

Management's responsibility.

The management is responsible for preparing a summary of the audited financial statements in accordance with the accounting policies set out in this summary of the audited financial statements.

Auditor's responsibility.

We are responsible for issuing an opinion on the summary financial statements on the basis of our activities, which we carried out in accordance with Dutch law, including Dutch Standard 810 'Engagements to report on summary financial statements'.

Opinion.

In our opinion the summary financial statements are consistent in all material respects with the audited financial statements of Koninklijke Smals NV and with the accounting policies set out in this summary of the audited financial statements.

Venlo, 23 March 2017

Ernst & Young Accountants LLP

sgd W.J.C.A. Weijers RA

An aerial photograph showing a large-scale construction or remediation project. A massive area of land is covered with a dark, reflective geotextile material, which is part of a silt dewatering system. The material is divided into several large, rectangular sections. Several workers in high-visibility clothing (yellow and blue) are visible on the surface, along with various cables and equipment. The project is surrounded by dense green trees, indicating a natural or semi-natural environment. The text "Smart solution involving geotextile containers offers major environmental benefits." is overlaid in the top left corner.

**Smart solution involving
geotextile containers offers
major environmental benefits.**

Thanks to our expertise, we are able to come up with smart solutions that deliver significant benefits for the environment. Dewatering silt reduces volumes by up to 50%. This innovative system is more efficient than all other traditional forms of silt processing and is cheaper than mechanical dewatering.

Thanks to our valued and committed team,
we ended 2016 with a positive result.



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