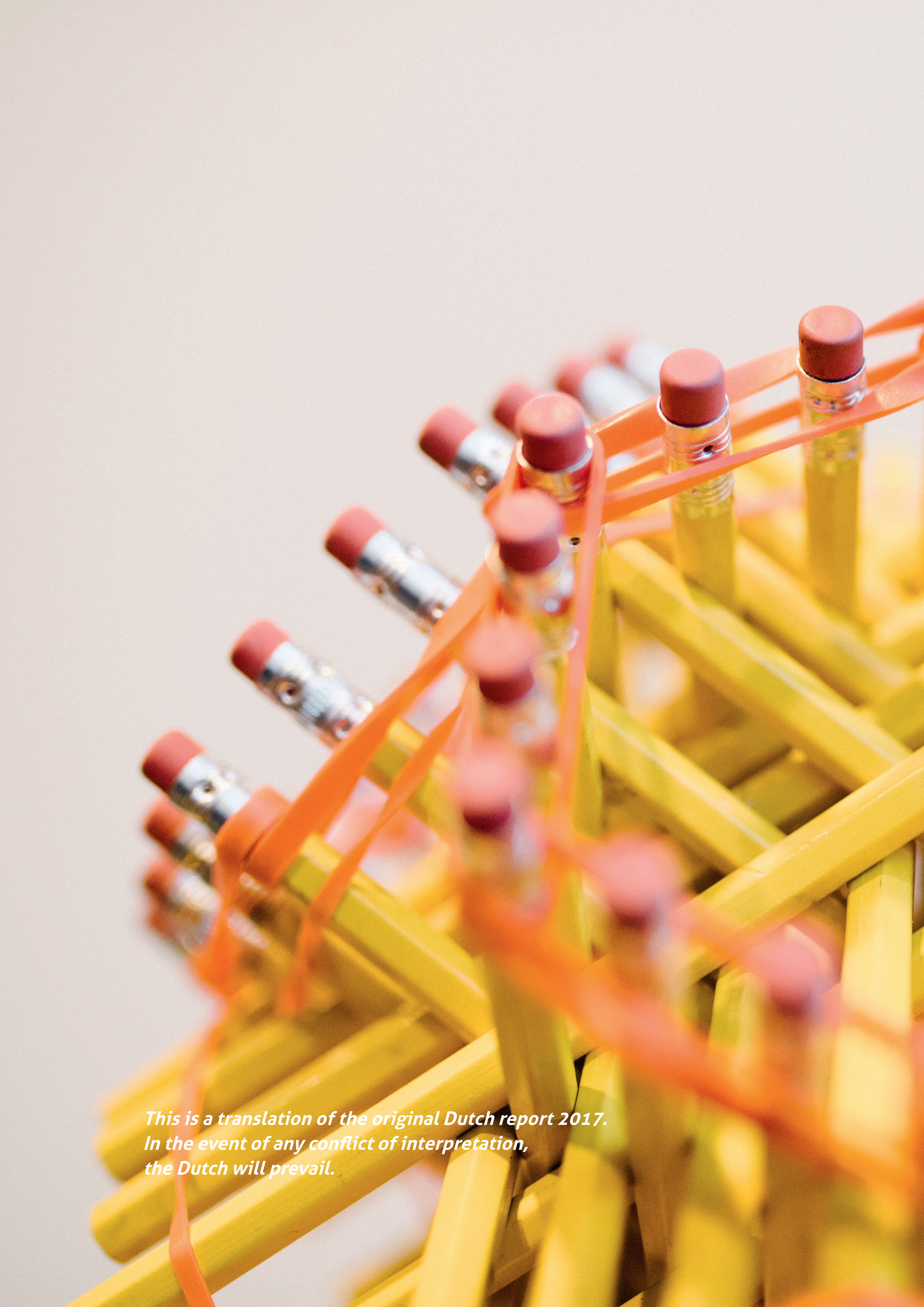
Annual report of
N.V. Nederlandsche
Apparatenfabriek
"Nedap" on its

# eighty-eighth

financial year
2017



*This is a translation of the original Dutch report 2017.
In the event of any conflict of interpretation,
the Dutch will prevail.*

*Annual report of N.V. Nederlandsche Apparatenfabriek "Nedap" on its* *eighty-eighth* *financial year 2017*

Founded on 27 September 1929

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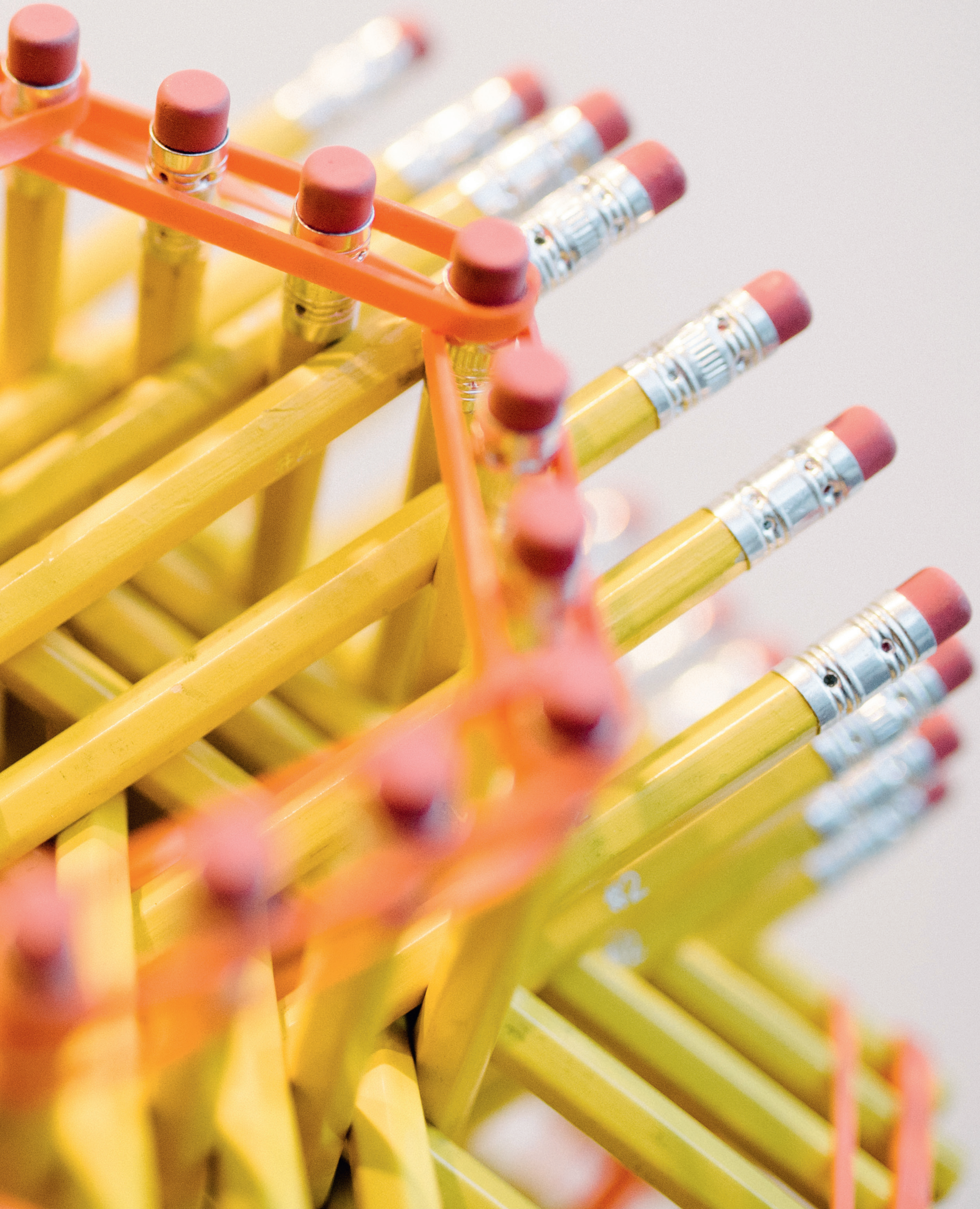

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nedap


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# supervisory board

# Report of the Supervisory Board

## To the shareholders

In 2017, Nedap's revenue was up 12% to €182.2 million. All business units except for Library Solutions and Light Controls helped to achieve growth. The profit achieved during the financial year amounted to €28.0 million (€10.8 million in 2016), partly thanks to the sale of the Nsecure B.V. subsidiary.* The operating profit excluding one-off items came in at €15.9 million (€12.2 million in 2016).

Throughout the financial year, our focus continued to be on the progress of the supply chain reorganisation. The Board of Directors and those responsible for the process continuously briefed us on relevant developments regarding the outsourcing process, as well as on the decisions that were needed and the reasoning behind these decisions. The financial impact and consequences for customers and employees were also discussed at length. We have furthermore spoken with business unit managers, the works council and staff about the impact of the outsourcing process.

A second important subject that we have addressed was the strategic reorientation of Nsecure for a future either as part of or away from Nedap and the ensuing sale of this subsidiary.
Allocation of the net proceeds from this sale was another subject that has been discussed, ultimately leading to the decision to use part of these proceeds to purchase the company's own shares to hedge obligations under the Nedap employee participation plans. Through a reverse accelerated bookbuild offering to qualified institutional investors, 3.7% of the total issued share capital was purchased. This was followed by a share purchase programme to purchase an additional 0.48% of the issued share capital on the Euronext Amsterdam stock market.

## Financial statements

The financial statements were audited by PricewaterhouseCoopers Accountants N.V. (PwC). Like in previous years, the auditor awarded a comprehensive unqualified audit certificate, which is specific to Nedap, and is included in the report under Other information.

A delegation from our Supervisory Board attended the auditor's final evaluation with the Board of Directors and Group Controlling, giving us insight into the primary discussion points between the auditor and the Board of Directors following the audit performed and the draft version of the auditor's report. The full Supervisory Board subsequently discussed the auditor's report and the 2017 annual report with the Board of Directors and the auditor. Aside from that, we also spoke to the auditor without the Board of Directors present, focusing on things such as the scope and materiality of the audit. We particularly looked at the main risks and key points of the audit certificate.
No further particulars emerged from this meeting.

Ten times per year, the Board of Directors submits extensive financial reports with notes to us, which we subsequently proceed to discuss with them. We also speak to managers and other business unit staff on a regular basis, discussing performance at the business units in question at length. Based on the information we have gathered, we are confident that the 2017 report provides a solid foundation for our accountability vis-à-vis our supervision of the Board of Directors' management of the company.
Our advice to the general meeting of shareholders is therefore to adopt the 2017 financial statements.

## Dividend

The profit for the financial year came in at €28.0 million (€10.8 million in 2016), resulting in earnings per share of €4.21 (€1.61 in 2016).

Nedap's dividend policy ensues from the company's strategy and long-term policy.
Profits are paid out to shareholders after deduction

** The impact of the sale of Nsecure B.V. is explained in detail on page 36 and also in the Directors' Report.*

of the amount needed for investments in profitable growth and the intended financing structure. In accordance with Article 45, paragraph 1, of the articles of association, a decision has been made to add €12.1 million to the Other reserves, which leaves €16.0 million for dividend, putting dividend per share at €2.50 (€1.40 in 2016).
As well as being used for a one-off increase in the dividend for 2017, net proceeds from the sale of Nsecure were retained to finance temporarily larger inventories, make severance payments related to the supply chain reorganisation in early 2018 and finance investments in the Groenlo building. Other than that, part of the net proceeds was used, as pointed out earlier, to purchase the company's own shares to hedge obligations under the Nedap employee participation plans.

### Meetings and activities

Over the financial year, we have had five regular Supervisory Board meetings, which were attended by all members. Aside from that, we had further meetings and liaised over the phone, both with each other and with the Board of Directors. Matters discussed included progress of the supply chain reorganisation, press releases, the composition of our Board, progress of the possible sale of our subsidiary Nsecure, the Nedap Additional Participation Plan (NAPP) and the purchase of the company's own shares.

Progress of the multi-year Changing Gears plan, which was launched in 2016, was also discussed at length, with the focus being on accelerating the development of the organisation and converting growth potential into solid financial results. Besides an analysis of the market and differentiating qualities, the plan also covers market opportunities and risks, growth drivers and growth plans for each business unit.
During the financial year, the business unit managers reported to us on the progress of their growth plans on a regular basis, going into things such as the growth drivers, the competitive landscape, lowlights and highlights, risks, challenges and the outlook. We also discussed growth opportunities and long-term value creation. The key focus points are innovation, the ability to recruit and retain sufficient talent, and the upkeep and further development of the Nedap corporate culture.

The meetings we had with managers and other members of staff at the business units helped us form a clear picture of operations in the various markets, as well as of each business unit's competitive position, development of the organisation, and the strategic objectives and related enabling conditions. They have also amplified our understanding of the opportunities and risks of the individual business units and Nedap as a whole. We have looked extensively at actual and expected operating results.

Moreover, we have discussed the joint growth platform that is intended to make life easier for the business units by taking care of support functions, such as administrative tasks, IT management, sourcing, compliance and people excellence, allowing the business units to maximise their focus and time spent on implementing their growth plans. Important focus points in this context are the organisation's scalability, agility and capacity for change, compliance, and the infrastructure for global internal collaboration.
The future of the Library Solutions business unit was also a topic of discussion. Given the extensive overlap of product portfolios, meetings between the Board of Directors and the stakeholders ultimately led to the decision to close down this business unit and migrate its operations to the Retail business unit.

This year, we were treated to a presentation about three of Nedap's subsidiaries, i.e. Nedap FZE, Nedap China Ltd. and Nedap Inc. The officers with ultimate responsibility for these subsidiaries told us about things such as their respective units' activities and organisation, while also shedding light on country-specific challenges, goals and collaboration with the head office in Groenlo.

We discussed progress of Nsecure's strategy process on several occasions, weighing the strategic options for Nsecure as part of or away from Nedap, while taking into account the interests of all stakeholders. The results of a feasibility study for a possible sale, which was performed by an external consultant, were also included in the equation.

Progress made on the supply chain reorganisation was a further regular item on our agenda.
In 2017, there were a few setbacks in the reorganisation process, but it was still largely completed by the end of the financial year. The financial evaluation of the outsourcing process showed that the assumptions in the decision-making process were largely valid. By the end of 2018, the effects of the outsourcing will be completely clear.

Partly in the context of the restructuring of US-based operations, we looked at directors' and officers' liability.
Companies that are listed on a regulated stock market usually have an indemnification clause for directors and officers in their articles of association, also because that is in keeping with the company's international expansion. Since we did not have this kind of provision in our articles of association, the Board of Directors submitted an amendment to the articles of association to the general meeting of 6 April 2017, with our consent. Following the meeting's ratification of the amendment, the indemnity for members of the Board of Directors and members of the Supervisory Board has been effected.
The Board of Directors' considerations in extending the Nedap Additional Participation Plan in step with the term of the Changing Gears programme have remained unchanged. The same goes for the conditions used and the financial impact. The threshold values, however, were revised last year. These were recently adjusted with a view to the completed sale of Nsecure.

Another item on the agenda was to authorise the Board of Directors to acquire ordinary shares up to a maximum of 10% of Nedap's issued share capital with our approval. We also discussed designation of the Board of Directors as the competent authority to issue ordinary shares and/or grant rights to subscribe to shares in the capital of Nedap N.V. up to a maximum of 10% of the issued share capital. Following on from this, designation of the Board of Directors as competent authority for the limitation or exclusion of preferential rights in issuing ordinary shares was also addressed.
The meeting of shareholders of 6 April 2017 approved the proposals made in this respect. The authorisation or designation was granted for a period of 18 months, starting on 6 April 2017.

We have furthermore discussed steps to take in the area of Management Development. Over the past few years, various training programmes have been designed and implemented, but there are still important steps to take in this area. Management Development will again be high on our agenda in 2018, partly with a view to putting together a comprehensive succession plan for the Board of Directors and business unit managers.
The Talent Recruitment team has been expanded further.

Needless to say, risk management was also discussed. As part of the Nedap-wide risk management programme that was launched in 2015, an updated Nedap COSO Risk Management Framework was formulated in 2016 and adopted by the Board of Directors and us. For further details, please refer to the 'Nedap and risk management' section in the Corporate Governance chapter.
Following on from the risk analysis at the business

units in previous years, an assessment was made in 2017 of the risks at the consolidated subsidiaries (excluding Nsecure) and at support functions such as IT, facility services, legal affairs and people excellence. This assessment has revealed no new potential risks that should be classified as 'vital'.

In the financial year, there was ample focus on containing the risks involved in the restructuring of the supply chain, as well as on identifying risks in the area of IT and cybersecurity. The organisation of the Nedap Inc. subsidiary was also further tweaked to ensure better management of the risks that exist in the North American market. In 2018, a Nedap-wide IT and cybersecurity framework will be set up.

We have discussed the set-up, functioning and effectiveness of internal risk management and control systems with the Board of Directors. The integrity and quality of financial reporting was addressed in a meeting about the financial management system. The Group Controlling department plays a key role in embedding risk management processes.
Together with the Board of Directors and like in previous years, we have concluded that there is no need yet for an internal auditor or an internal audit function and that adequate alternative controls are not needed either. Nedap has a culture of entrepreneurship where employees' personal responsibility, independence and ownership come first. There is a firm and broadly shared belief that such ownership leads to optimum risk management. The Board of Directors, managers and the Supervisory Board play a key role in this respect. Together, we safeguard a culture where everyone feels empowered to deal with risks in a responsible manner. This is based on the belief that Nedap has a workforce of highly competent specialists who have the kind of skills and experience they need to be able to anticipate the consequences of their actions and decisions. Interaction on and between teams, between business units and with the Board of Directors ensures that we have a powerful system with strict but informal checks and balances, supplemented by formal procedures and controls wherever these are compulsory or deemed useful.

Strategic and operational decisions are targeted at creating sustainable value, which implies that decisions take long-term effects into account. The benefit of this approach is that it ensures that risk management is solidly integrated into and inextricably linked to operations. In this context, the Nedap COSO Risk Management Framework forms the basis for formal and informal frameworks that guarantee responsible risk management. Groenlo-based Group Controlling is in charge of the risk management process. And finally, a high level of transparency is guaranteed by the IT infrastructure, which is the same as that of Nedap N.V. at virtually all group companies.

Aside from regular financial reports, the NAPP, the reorganisation of the supply chain, Nsecure, the progress of Changing Gears and risk management, we reviewed the usual items such as the budget for 2018, the organisation and corporate governance.

Together with the Board of Directors, we evaluated Nedap's auditor and the PwC organisation, as well as Nedap's collaboration with them. We believe that the auditor provided us with all the information we needed to be able to adequately carry out our supervisory duties. The auditor found no material weaknesses in the reporting.

We have evaluated PwC's independence as the auditor and came to the conclusion that it is not compromised. PwC does not perform any work for Nedap other than its audit activities.

Nedap's corporate social responsibility policy, for which the Board of Directors has ultimate responsibility, was reviewed and discussed on various occasions, including as part of strategy review meetings. This Supervisory Board-approved policy has remained unchanged.

We have furthermore talked about the future composition of our Board on several occasions, partly with a view to the term limits and (revised) Corporate Governance Code.

Both with and without the Board of Directors, we held meetings about our performance as the Supervisory Board and the performance of the Board of Directors, both collectively and individually, as well as about variable remuneration to award to board members. Using a keenly targeted questionnaire, we have evaluated our collective performance as the Supervisory Board and our individual performance as Supervisory Board members.

Discussions and other communications are open and transparent. Communications between the Supervisory Board and the Board of Directors are transparent and critical, and the mutual working relationship is a good one.

A Supervisory Board delegation spoke with the works council, a delegation of business unit managers and the company's secretary about the performance of the Board of Directors as a whole and of individual members of the Board of Directors. These discussions were open and critical and held in good faith. The individual board members and the Supervisory Board as a whole were informed of the conclusions from these evaluations. Our conclusion is that the Supervisory Board and the Board of Directors have performed well, both individually and collectively.

As in previous years, we had informal talks, either individually or as a delegation, with relevant employees to discuss items outside formal meetings. There were further informal contacts between members of the Supervisory Board and all business unit managers to discuss financial performance, market trends and opportunities, the competitive position, staffing issues, the medium-term vision, risks and action points. We advocate a proactive way of working, both collectively and individually. On an individual level, we always share our findings with the other Supervisory Board members. These contacts with employees of Nedap and Nedap subsidiaries, as well as with the works council, will continue to deepen our understanding and allow us to stay tuned in to Nedap's affairs.

Our annual evaluation shows that we - both individually and collectively - had sufficient time available to devote the required degree of attention to developments at Nedap. There is a good distribution of focus areas and we complement each other sufficiently in our advisory role to the company.

Partly given our proactive way of working, we stand by our view that setting up separate committees within the Supervisory Board is not required and not desirable at this point in time, also given Nedap's limited scale and the Supervisory Board's limited membership. As a whole, the Board will continue to be responsible for correct execution of the tasks of the audit, remuneration and selection and appointment committee. Any decisions are made jointly by the full Supervisory Board.

Our chairman regularly meets with the managing director to discuss current affairs at Nedap and any other issues. The Board of Directors keeps our chairman informed of bilateral contacts with shareholders as part of the relevant policy. Initiated either by Nedap or by a shareholder, such contacts are intended to provide a more complete picture of developments at Nedap. In these kinds of talks with shareholders, the company is generally represented by a member of the Board of Directors.

## Composition of the Supervisory Board

At the general meeting of shareholders of 6 April 2017, Mr Jo M.L. van Engelen was appointed to a second four-year term on the Supervisory Board and Mr Michiel C. Westermann was appointed to a third term, which has been limited to two years. These reappointments are entirely in keeping with the Supervisory Board profile.

Among Jo van Engelen's qualities, the ones that stand out are his wide-ranging management experience, broad expertise in the areas of industrial product development, marketing and product strategy, and financial acumen, as well as extensive contacts at knowledge institutes. He fulfils his supervisory and advisory responsibilities to full satisfaction and in an independent, conscientious and pragmatic manner, making a positive contribution to the Supervisory Board's work.

We deemed it expedient to reappoint Michiel Westermann to a third term on account of the far-reaching transition that Nedap finds itself in, as well as due to the upcoming resignation of Ms Désirée W.J. Theyse in 2018. Partly to ensure balanced term limits, he put himself up for reappointment to a two-year term. Michiel Westermann combines broad management expertise with an entrepreneurial spirit. Aside from that, he boasts wide-ranging expertise in IT and a keen eye for innovation. He fulfils his supervisory and advisory responsibilities to full satisfaction and in an independent, conscientious and pragmatic manner, making a positive contribution to the Supervisory Board's work.

In the financial year, the Supervisory Board saw a change of vice-chairman as Michiel Westermann stepped down and Jo van Engelen was appointed the new vice-chairman. In anticipation of Désirée Theyse's standing down, we looked for a suitable successor who would fit the profile and have finance as their core competence. We recruited the help of an executive search firm to conduct the actual search, whereby we stipulated that we wanted to see a large number of competent women on the longlist, partly because of the target male-female ratio for the Supervisory Board: at least 30% female and at least 30% male.
We feel we have found a suitable candidate in Ms Margot A. Scheltema.

Initially, the idea was to temporarily add one additional member to the Supervisory Board to ensure continuity. However, considering the need for a thorough induction period, a decision was ultimately made to put the appointment on the agenda for the ordinary general meeting of shareholders of 5 April 2018.

As shown by the profile, we are aiming for a gender-diverse composition of the Supervisory Board to reflect the society in which Nedap operates.
At the end of 2017, the Supervisory Board's composition did not meet statutory gender diversity requirements: at least 30% female and 30% male on the Board of Directors and the Supervisory Board. This will not change in 2018 either. The same goes for the Board of Directors, which had two members at the end of 2017, both male and on a permanent appointment. There were no new appointments to the Board of Directors in 2017. The next time a vacancy on the Board of Directors needs to be filled, which considering the term limits is expected to be in 2019, as well as for future vacancies on the Board of Directors, the minimum target of a 30% female board will expressly be taken into consideration. That said, meeting the selection criteria always comes first in selecting the most suitable candidate.

We believe the Supervisory Board has a good balance of skills, relevant knowledge and experience and can fulfil its statutory duty to supervise and advise the Board of Directors in an effective manner. In our view, we have met the requirements of independence, as specified in best practice provisions 2.1.7 to 2.1.9 inclusive of the Corporate Governance Code.

## Remuneration

### *Board of Directors*

Details of the remuneration policy for the Board of Directors under the articles of association are provided in the Corporate Governance chapter. The components of the remuneration received in the financial year as per the remuneration policy are listed under 'Board of Directors remuneration' in the financial statements.

At the start of the financial year, we set the performance standards for the variable components of members of the Board of Directors' pay. The Board of Directors invests a minimum of 50% of such variable remuneration in the Nedap employee participation plan, and thus in depositary receipts for shares that are locked up for a period of four years. As a result, at least 50% of variable remuneration is of a long-term nature. Since the creation of the employee participation plan, members of the Board of Directors under the articles of association have invested all of their variable remuneration in the plan.

Directors' remuneration consists of a fixed and a variable component. The variable component depends on whether or not members of the Board of Directors meet targets set in advance by the Supervisory Board, with 1/3 of variable pay linked to financial targets, 1/3 to internal organisational targets and 1/3 to external targets. For competitive reasons, Nedap cannot give further details of the targets. However, it can be disclosed that the Board of Directors did not hit all of the financial targets set for 2017. When it comes to the internal and external targets, performance has been so good that setting the total variable remuneration above the target level, i.e. at 75% of the fixed annual income, is justified.

In deciding on total remuneration for members of the Board of Directors, we took note of the views of individual directors on the level and structure of their pay. We also analysed several different scenarios, taking into account factors such as the development of revenue and profits, the advancement of Nedap's interests in the medium and long term, and internal pay relationships at Nedap.

Nedap N.V.'s managing director receives a fixed annual salary that includes a holiday allowance and thirteenth month's salary. We compared this to the median gross fixed annual pay (including holiday allowance and thirteenth month's salary) of the 533 employees working at the Groenlo head office at year-end 2017. In doing so, we converted part-time employees' salary to the salary they would be on if they were in full-time employment. Given the major differences between countries in terms of spending power and tax rate, employees at subsidiaries outside the Netherlands were not included in the equation. The pay awarded to members of the Board of Directors was not included in the calculation of the median gross fixed annual salary either. The managing director's fixed annual salary equals 7 times the median salary.

*Supervisory Board members*

Remuneration of the members of the Supervisory Board has not changed and is set out in the financial statements under 'Supervisory Board remuneration'.

We would like to express our gratitude to our shareholders and customers for their interest in Nedap and for placing their trust in the company. We also want to take this opportunity to extend our appreciation to the Board of Directors and all employees for their dedication, effort and loyalty to Nedap throughout the past year.

Groenlo, Netherlands, 15 February 2018

The Supervisory Board:
G.F. Kolff, chairman
J.M.L. van Engelen, vice-chairman
D.W.J. Theyse
M.C. Westermann

## Supervisory Board profile

Nedap's policy is aimed at creating sustainable value added for customers, staff and shareholders. Nedap translates expertise of markets and technology into innovative and leading propositions based on which leading positions are built in different markets. In doing so, Nedap focuses on products, activities and markets where they can truly make a difference.
This forms the basis for long-term autonomous growth of revenue and results.
In supervising the Board of Directors, the Supervisory Board must always factor in these basic principles. They must also make themselves available to the Board of Directors in an advisory role.

This requires a balanced Supervisory Board, where management experience and broad expertise in the areas of finance, technology and commerce are coupled with affinity for and a strong sense of:

- entrepreneurship
- hands-on management in a flat organisation that is based on distinctive strengths
- attracting talent and enabling talent to grow
- innovation and proposition development
- sustainable organisational development, striking a balance between a short-term and a long-term focus
- building scalable business models in an international environment
- developments in society.

By and large, the Supervisory Board is required to adopt a critical attitude towards the Board of Directors. Its members must be independent from the company and each other, and possess complementary qualities. The aim is for the composition of the Supervisory Board to reflect the society in which Nedap operates. The Supervisory Board will not have more than five members.

## *Supervisory Board member details*

At 15 February 2018

### *Mr G.F. Kolff (69), chairman, male*

Extensive management experience, sound expertise in the area of technology, financial expertise, ability to translate technology to solutions and market opportunities, experience with and understanding of Nedap's value creation model and solid communication skills.

| | | |
|---|---|---|
| Nationality | : | *Dutch* |
| Profession/most recent primary position | : | Managing director of Shtandart TT B.V. |
| Relevant additional positions | : | *none* |
| First appointment | : | *17 April 2012* |
| Current term | : | *2016-2020* |
| Supervisory board memberships | : | *Paques Holding B.V. (chairman)*<br>*Smits Bouwgroep B.V. (SBB)* |

### *Mr M.C. Westermann (65) MBA, male*

Broad management experience, entrepreneurship, commercial focus, extensive expertise in the area of IT, an eye for innovation.

| | | |
|---|---|---|
| Nationality | : | *Dutch* |
| Profession/primary position | : | *Executive board member DIH International (Hong Kong)* |
| Relevant additional positions | : | *none* |
| First appointment | : | *12 May 2009* |
| Current term | : | *2017-2019* |
| Supervisory board memberships | : | *Triple-P*<br>*Barenbrug Holding B.V. (chairman)* |

### *Ms D.W.J. Theyse (49), female*

Comprehensive financial knowledge, management experience and practical knowledge and experience with listed companies and other large legal entities.

| | | |
|---|---|---|
| Nationality | : | *Dutch* |
| Profession/primary position | : | *Corporate Strategic Director DPA Group N.V.* |
| Relevant additional positions | : | *none* |
| First appointment | : | *29 April 2010* |
| Current term | : | *2014-2018* |
| Supervisory board memberships | : | *none* |

### *Prof. J.M.L. van Engelen (58), vice-chairman, male*

Wide-ranging management experience, broad expertise in the areas of industrial product development, marketing and product strategy, and financial acumen, as well as extensive contacts at knowledge institutes.

| | | |
|---|---|---|
| Nationality | : | *Dutch* |
| Profession/primary position | : | *Professor of Integrated Sustainable Solutions, Faculty of Industrial Design Engineering, Delft University of Technology* |
| Relevant additional positions | : | *Professor of Business Development, Faculty of Economics and Business, University of Groningen* |
| First appointment | : | *16 April 2013* |
| Current term | : | *2017-2021* |
| Supervisory board memberships | : | *Member of the Supervisory Board of Espria*<br>*Member of the Supervisory Board of Pensioenfonds Zorg & Welzijn*<br>*Member of the Supervisory Board of CentER Data,*<br>*Member of the Board of Stichting Triade,*<br>*University Medical Centre Groningen* |

02

# directors' report

## 2017 in a nutshell

Both in terms of financial performance and in the development of our company, we have made solid progress in 2017. Nedap's overall revenue was up 12%, rising to €182.2 million (€163.2 million in 2016). The Healthcare, Identification Systems, Livestock Management, Retail, Security Management and Staffing Solutions business units all achieved revenue growth, while revenue generated by Library Solutions and Light Controls lagged behind. Operating profit excluding one-off items increased by 31% to €15.9 million in the financial year (€12.2 million in 2016). The profit for the financial year came in at €28.0 million, a 160% rise on the 2016 profit of €10.8 million.

The financial year saw sound progress with Changing Gears, the strategic multi-year plan intended to increase focus on activities that will accelerate the company's development. As part of this plan, the supply chain reorganisation largely phased out production and logistics operations at Nedap, enabling staff to focus on developing and marketing the company's own propositions. The sale of the Nsecure subsidiary and its system integration activities in the security market in late 2017 fits in with this strategy.

Earnings per share were up to €4.21 (€1.61 in 2016), while dividends for 2017 have been set at €2.50 per share (€1.40 in 2016). At year-end 2017, solvency stood at 55% (50% at year-end 2016).

## Management and supervision

As dictated by the term limits, Messrs J.M.L. van Engelen and M.C. Westermann stood down at the general meeting of shareholders of 6 April 2017, following which they were both reappointed to the Supervisory Board at the same meeting. Mr Van Engelen was reappointed to a full four-year term, while Mr Westermann was reappointed to a reduced term of two years. At the 2018 general meeting of shareholders, the Supervisory Board will nominate Ms M.A. Scheltema to succeed Ms D.J.W. Theyse, who is set to step down as her second term comes to an end.

## Market and strategy

Nedap operates in a range of different markets worldwide. Each of these markets is marked by entirely unique dynamics, and yet, there are three trends that are continuing to pick up steam across the individual markets.

### *From replication to creation*

In the past, a considerable part of the value added across Nedap was created through smart and efficient manufacturing of electronic products. However, increasing integration of electronic circuits into single chips is rapidly reducing the complexity of printed circuit boards. Add to that the fact that automated production processes are used on an ever greater scale, and you have a situation where large-scale production of electronic products has largely become an area in which Nedap is unable to differentiate itself.

Nowadays, by far the greatest part of the value of our products is generated during the creation phase, which is when market insights and technology converge and most of a product's differentiating qualities are created. Nedap has responded to this changing landscape by gradually winding down production operations and investing in expanding development capacity, especially in the area of software. Aside from that, efforts are ongoing in terms of developing knowledge and skills in the areas of industrial design, sales and marketing. Having a technologically superior product alone is not enough. Marketing, sales methodologies, distribution and support also need to be organised efficiently to be able to turn a technologically superior product into a powerful proposition that has the potential to move markets.

*From transaction to relationship*

The nature of the products we sell has changed drastically over the years. Where many of our products used to be purely electronic and mechanical, software is now increasingly the defining factor in how our products work. And the software domain is one that is currently seeing a major shift. Besides offering embedded software and server software, each of our business units is working on new propositions based on software services, meaning that an increasing part of our revenue is recurring revenue.

This shift in the nature of our solutions also comes with a fundamental change to our relationships with our customers. Where customer contacts used to be limited to the time of purchase, our service-based software solutions involve daily contact with customers and users of our systems, meaning that we are building closer relationships with customers. By using modern communications platforms and digital training, we are able to provide our customers with excellent support without having to significantly expand our customer support workforce.

Intensification of customer contact offers us an opportunity to gain in-depth insight into our users' processes, as well as into how our systems function in day-to-day operations. Our analyses of how our software is used, for example, show exactly which features are and are not used, enabling us to set targeted development priorities. The feedback feature we have integrated into our software systems lets end users tell us which features they think are lacking or what they would like to see changed in our software. This kind of feedback helps us in putting together new and valuable propositions that are better aligned with current market requirements and preferences.
This is how we are ensuring that our products stand out, hence strengthening our market position.

*From chain to network*

In the past, most markets had clear-cut supply chains. Products went from the manufacturer to the importer to the distributor to the dealer and ultimately to the end customer. This model has changed drastically. Partly on the back of the advent of the internet, several of the links in this chain have become surplus to requirements in various markets. With software services, it is increasingly common practice for end users to enter into a direct commercial relationship with the provider, or for each component of a solution to be provided to the customer through different channels.

The Light Controls business unit, for example, provides the Luxon IoT connection node to a fittings manufacturer, who subsequently incorporates it into the fittings. Next, the fittings are supplied to the installer, who also orders the rest of the operating hardware from Nedap and then takes care of installation of the lighting system. Yet another specialist party is subsequently brought in to get the system up and running, while the end user takes out a subscription for the Luxon software service directly with Nedap. And system maintenance is handled by a second installer. Instead of a clear-cut linear supply chain, this is a dynamic network of companies that together ensure the system works the way it should. To be able to operate successfully within this kind of environment, the business unit itself needs to build and manage a complete and high-quality network that unites all the providers and suppliers involved.
This means that business units not only have to win over end users, they also have to persuade the relevant market parties to buy into their products and services. After all, they need a sufficient number of well-trained installers to install the products. Suppliers need to be persuaded to make their systems compatible with Nedap technology. We need providers of associated products to develop interfaces with the Nedap system. Distribution partners must be encouraged to stock Nedap

products. The structure and members of this network differ from one market to the next. Only when all parts of the 'ecosystem' are covered will we be able to truly conquer a market.

In the early stages of a market, there will often be multiple supply networks under development. But the various parties, which each have their own particular role, will not be able to support all networks. They will ultimately go with one, perhaps two, ecosystems, and focus their investments on building the knowledge and experience required for that particular ecosystem. It is therefore crucial that we make sure Nedap creates the winning ecosystem in each of these markets.
For Nedap, the emergence of such supply networks also leads to entirely new commercial opportunities for different propositions. The Luxon platform, for example, offers installers the technical facilities that allow them to offer 'lighting as a service.' A specially designed software service gives installers a clear dashboard view of the status of all lighting systems they manage at different end customers. For a number of end customers, the Luxon platform automatically generates maintenance requests as soon as the system detects a defect in a fitting. The new situation also opens up opportunities for valuable benchmarks of reliability and usage of different suppliers' light fittings,
based on real-life results with a large number of light points installed.
These three fundamental market trends (from replication to creation, from transaction to relationship, and from chain to network) are occurring at different speeds and with varying impact in the various markets. Nedap's approach in responding to these developments is a proactive one, where investing in expanding our development capacity, intensifying relationships with end customers and bolstering ecosystems produces strong market positions. This forms the basis for sustainable positive development of the company.

## Employees and organisation

Last year, the Changing Gears multi-year plan was set in motion with the intention to switch Nedap's development to a higher gear. The three mainstays of the plan are entitled Capturing Growth, Enabling Growth and Sustaining Growth.

### *Capturing Growth*

Each of Nedap's business units has analysed their respective markets and identified the main growth drivers. Based on these analyses, individual growth plans were put together for each business unit. The challenge is to use the energy and capacity of a business unit for those activities that have the biggest positive impact on the growth drivers. Nearly all of the business units have sharpened their focus in their marketing and sales activities over the past year, ultimately achieving accelerated revenue growth in the financial year. Capturing Growth will continue to be a high priority across the organisation in the coming years.

### *Enabling Growth*

The Enabling Growth part is intended to organise activities in a way that maximises the time and effort available for Capturing Growth. A key element of this is the supply chain reorganisation, which is seeing production and logistics operations outsourced largely to external partners and wound down as internal Nedap functions. This allows Nedap to focus on activities that represent high value added per employee, i.e. creating and marketing differentiating propositions. Aside from that, Nedap can take advantage of lower costs of sales of its products thanks to the purchasing power and scale of the production partners.

In 2017, work on the supply chain reorganisation reached its peak. We have transferred every individual product, developed new test equipment, rearranged procurement, ordering and logistics processes and helped production partners get started with the production of Nedap products.

It was not all plain sailing, however, as some production partners turned out to lack the required capacity to effectively manage the sharp increase in their production volume. Component scarcity in the electronics market led to extra long lead times, while demand for certain Nedap products soared. Over the past year, the supply chain project put a considerable strain on the Nedap organisation. With great effort and perseverance, our employees succeeded every time in finding pragmatic solutions to all kinds of operational problems. We therefore want to thank all employees for the commitment and determination they showed in minimising any kind of inconvenience for our customers. Thanks to all these efforts, we were able to hit a number of key milestones, i.e. the closure of the metal department in mid-2017, the complete phase-out of Inventi production activities by late 2017, and the transfer of a large part of our logistics activities.

The extra work and effort involved in the supply chain project led to additional one-off costs totalling approximately €3.9 million in the financial year.

Over the year, preparations got underway for the building of the joint growth platform, which is intended to make life easier for the business units by taking care of support functions such as administrative tasks, IT management, sourcing, compliance and people excellence. By lightening the load for the business units, they will be enabled to focus, i.e. with as little distraction as possible, on realising the growth plans. After the first trial runs, we expect to see the first concrete results in 2018. The expectation is that administrative and logistics processes will be easier to support and organise using new cloud-based systems. This kind of complexity reduction will also reduce the level of effort involved in ensuring that these internal processes continue to meet increasing requirements in terms of security, scalability, compliance and ease of use. All in all, Nedap's transition to the joint growth platform will span several years.

*Sustaining Growth*

The third part of Changing Gears is Sustaining Growth. Sustaining Growth is all about ensuring that we not only seize current growth opportunities, but also create sufficient growth opportunities for the future. One key aim in this context is to keep investing in talent recruitment, development and retention. After all, our people are ultimately a key success factor. We have therefore considerably expanded our recruitment activities over the past year, focusing not only on filling vacancies, but also investing in contacts with potential employees who are not immediately available but who could be a valuable addition to our workforce in the future. By actively staying in touch with potential employees while they still work elsewhere or are still at university, we hope to create a growing pool of suitable potential employees that we can draw from over the coming years.

Besides recruiting new employees, we are also investing heavily in the development of the people who are already working for Nedap. Our comprehensive training programme, which is customised to Nedap practices, has already proven to greatly help employees make excellent progress in their personal and professional development during their first years at Nedap. Over the next few years, we intend to step up the focus on training programmes for more experienced staff, whereby leadership development will be a particularly important theme.

Efforts are also ongoing unchanged in the area of innovation. As the focus is currently mainly on achieving results with existing propositions, it goes without saying that innovative new ideas are not high on the agenda. However, this does not mean that we are sitting on our hands at Nedap when it comes to innovation. Every business unit has worked on creating new technological opportunities over the past years, testing the practical applicability of innovations, and their value for end users, in real-life settings at an increasingly early stage. Such ongoing early feedback on innovations ensures a greater focus on the relevance of our technological innovations than before. Nedap currently has a broad portfolio of innovations that offer excellent growth opportunities for the future.

Our corporate culture and its further development are also a key aspect of Sustaining Growth. The Nedap culture is characterised by creativity, a great sense of responsibility and personal entrepreneurship, which are all traits that a company needs during the start-up phase. With the business units now moving on to the scale-up phase, aspects such as ambition, professionalism and trust in each other's professionalism are gaining in importance. Our challenge is to make sure this shift in emphasis in our corporate culture does not come at the expense of the original core values that are so essential for Nedap's competitive strength. Over the coming years, the Changing Gears programme will keep the focus on articulating and conveying these important cultural features to ensure they stay solidly embedded in our organisation.

### *Organisational changes*

The strategy of the 100% Nedap subsidiary Nsecure was again reviewed during the financial year. The conclusion was that Nsecure is well positioned as a specialist system integrator for security systems, but also that Nedap is not the ideal shareholder for the implementation of the strategy due to its limited synergy with the other operations.

The subsequent structured search for another shareholder ultimately led to Nedap sealing a deal with Unica in November 2017 for the sale of Nsecure. This transaction constitutes Nedap's next step in its strategy of focusing on the development and sale of proprietary products and solutions. In being sold to Unica, Nsecure is being entrusted to a shareholder committed to Nsecure's strategy of further expanding its leading role in the Dutch security market. The company will remain a key business partner for the Security Management business unit.

The operations of the subsidiary Nedap Iberia were also reorganised. In keeping with the strategy, the Retail and Library Solutions business units are largely transferring their Spanish sales and service activities relating to hardware products to business partners. In future, Nedap Iberia will focus on direct sales of the !D Cloud software solution and on business partner support. The Security Management business unit will continue its activities on the Spanish market unchanged. This reorganisation incurred one-off costs of €0.3 million in 2017.

Given the major overlap between product portfolios, a decision was made to close the Library Solutions business unit as of 1 January 2018, and to migrate this unit's operations to the Retail business unit.

### *Staff*

The reduction in Nedap's workforce on the back of the phase-out of production and logistics activities was partly compensated by hiring new staff for the development and marketing of propositions. At year-end 2017, Nedap's workforce counted 655 employees (637 FTEs) (674 employees at year-end 2016; 651 FTEs).
The average number of employees over 2017 was 678 (657 FTEs) (666 in 2016; 645 FTEs), with an average age of 41.0 years (41.6 years in 2016). The sickness absence rate - excluding maternity leave - fell to 1.5% in the financial year (2.5% in 2016). Value added (gross margin) per employee grew to €166,000 (€159,000 in 2016). Value added per FTE rose from €164,000 in 2016 to €172,000 in 2017.

Like in previous years, the works council again played an important role over the past year.

As the representatives of Nedap employees, the members of the works council actively seek contact with colleagues. By taking any matters that employees want raised to the Board of Directors, works council members are able to ensure that any problems are identified and dealt with early and quickly.
Organisational changes or strategic decisions are always run by the works council at an early stage. The works council's valuable and constructive contributions to the decision-making process are highly appreciated and help ensure high-quality decisions. Our gratitude therefore goes out to all members of the works council, thanking them for the time and effort they have put into their works council commitments over the past year.

Attracting, developing and retaining talent continues to be essential for Nedap.
In this context, we ceaselessly seek to build ties with educational and knowledge institutions, university societies, and career fair organisers. Thanks to such efforts, the number and quality of young, talented people who are considering joining Nedap keeps increasing. Our growing reputation as an attractive employer is also inspiring an increasing number of more experienced candidates to make the switch to Nedap.
The bar for both new and current employees is raised continuously. Due to our ever stricter hiring policy, potential employees that meet our requirements and expectations continue to be scarce.

Our aim is to create a diverse workforce that reflects the society in which Nedap operates, ensuring diversity in terms of gender, nationality, age, origin and other characteristics. We also strive for a balanced allocation of seats in terms of diversity when it comes to the composition of the Board of Directors and the Supervisory Board. That said, compliance with our high quality standards always comes first.

During the financial year, Nedap sealed a new one-year collective labour agreement with the trade unions, which took effect on 1 April 2017 and included agreement on a 1.5% salary increase.

Under the Nedap employee participation plan, employees can use part or all of their annual share in the profits to purchase Nedap depositary receipts. After purchase, these depositary receipts are locked up for four years. In addition to a 10% discount on the purchase price of the depositary receipt, one bonus depositary receipt is awarded after four years for every four depositary receipts. This is subject to conditions. The holder of the depositary receipt is immediately entitled to the full dividend per share.

In 2017, a decision was made to renew the Nedap Additional Participation Plan (NAPP) up to 2021 inclusive, in step with the term of the Changing Gears programme. The NAPP is intended to allow employees to acquire an extra share in the company’s profits whenever the EBIT excluding one-off items grows by over 5% a year. Of all growth beyond this 5% threshold, 40% is distributed to employees. This share in the profits is subsequently paid out to employees in the form of depositary receipts with a four-year lock-up. The threshold values were revised last year. The starting point for the NAPP in the period from 2017 to the end of 2021 is the 2016 EBIT excluding one-off items of €14.3 million. Every year, the threshold value will go up by 5%, which will be adjusted to reflect the positive effect the supply chain reorganisation in 2017 and 2018 is expected to have on the EBIT. The sale of Nsecure prompted an adjustment of the 2016 benchmark by €2.1 million (i.e. the part of the EBIT generated by Nsecure in 2016).
This means the new threshold values are €14.8 million (2017), €17.5 million (2018), €18.4 million (2019), €19.3 million (2020) and €20.3 million (2021).

EBIT (excluding one-off items) totalled €16.7 million in 2017, i.e. €1.9 million above the €14.8 million threshold value. Of this amount of €1.9 million, €0.8 million (subject to the usual deductions) is distributed to employees in the form of depositary receipts. These costs are recognised as personnel costs in the 2017 statement of profit or loss.
To hedge Nedap's obligations under the Nedap employee and other participation plans over the coming years, part of the net proceeds from the sale of Nsecure was used to purchase the company's own shares. In total, the company purchased 280,001 Nedap shares at an average share price of €43.83. Over the coming years, these shares will be sold to Stichting Medewerkerparticipatie Nedap when employees acquire Nedap shares or depositary receipts for these shares under the participation plans. At the end of the financial year, Stichting Medewerkerparticipatie Nedap held 120,153 Nedap shares, representing approx. 1.8% of the total issued share capital.

## *Business unit developments*

### Healthcare

The Healthcare business unit has considerably increased its market share in both the elderly care and disabilities market, which has resulted in considerable revenue growth once again in 2017. In the mental healthcare market, more and more mental healthcare facilities are joining regional facilities for sheltered housing (*Regionale Instellingen voor Beschermd Wonen* in Dutch) in choosing Nedap's services.

The rapid uptake of Nedap software services led to growing demands on the organisation and systems. To be able to adequately absorb growing demand, the Healthcare business unit invested heavily in its technical infrastructure and team reinforcement during the financial year, thus ensuring that the unit is well-equipped to also handle future growth in the various markets.

Thanks to the development efforts of the past few years, the features on offer have been expanded considerably and evolved into a core system for healthcare support. They are now used every day in more and more domains at healthcare providers. Nedap has made supporting integrated collaboration across these domains a key aim, as it is an essential precondition for the improvement of healthcare quality.

Owing to Nedap's central role at healthcare institutions, more and more companies, including suppliers of software for telephone exchanges, training systems and drug prescription systems, want to interface their solutions with the Nedap software platform. To make this possible, a special interface has been made available, which is based on a generic Application Programming Interface (API). Dozens of companies have meanwhile already started using this interface option, which adds to the features and user options of the Nedap solution and further strengthens Nedap's position in the Healthcare ecosystem.

On 25 May 2018, the General Data Processing Regulation will come into effect. This new piece of EU privacy legislation will have a major impact on the requirements companies and systems operating in the healthcare industry have to meet. Over the past two years, Nedap has worked hard on ensuring GDPR-readiness for its services. Efforts in this context included the development of an entirely new authorisation model that is set to be rolled out in early 2018. Besides technical adjustments, efforts have also gone into briefing and training Nedap users to prepare them for the impact this new regulation will have on working methods across the healthcare industry. Nedap-organised breakfast sessions about this subject were attended by over 300 healthcare providers. This kind of proactive attitude is what sets Nedap apart in the market, as a result of which Nedap is seen as a full-service partner that healthcare providers can rely on.

Demand for tailored deployment of modern technology to support healthcare processes will continue to grow at the same rate in the various healthcare market segments over the coming years, and Nedap's proposition keeps getting stronger thanks to the company's commitment to the healthcare market and continuous investments in product development. As a result, Nedap's market share is expected to increase further on the various healthcare markets, which should also bring about growth in revenue in 2018.

### Identification Systems

The Identification Systems business unit (security, traffic and parking solutions) had an excellent year once again, posting significantly increased revenue. This increase was mainly achieved in Europe, the Middle East and North America, with propositions for vehicle identification and detection and people identification.

With its portfolio of long-range readers for vehicle identification, the Identification Systems business unit is able to offer a suitable solution for just about any project. To further bolster its proposition, a lot of effort went into stepping up commercial activities in 2017 to make long-range readers the go-to solution for projects. The uPASS product line in particular generated excellent growth.

Since June 2016, Identification Systems has been selling a full person identification platform. This MACE platform (Mobile Access Control Entities) allows the use of smartphones as an identification device for access control systems, which has sparked widespread interest in the market. Besides a next-generation reader that can read both regular access cards and smartphones, the platform offers apps and a cloud-based software service for secure management of virtual access cards and secure sending to users. The first customers have meanwhile successfully started to use the MACE platform on a daily basis.

Sales of the wireless parking sensors for the SENSIT platform also showed a significant increase in 2017. Nedap is now the global market leader in the area of vehicle detection with wireless parking sensors at open-air parking spaces. In 2017, these sensors and the associated software were used in numerous prominent projects in cities, on university campuses and at motorway truck stops. Users of these facilities now get real-time parking availability data through apps and signs, optimising traffic flow and parking capacity utilisation.

With its SENSIT solution, Identification Systems plays an active role in the wireless IoT technology market. Given the uncertainty as to which technology will ultimately dominate this market, Identification Systems must keep tracking the various technologies. After Long Range Low Power, i.e. LoRa, the focus shifted to Narrowband IoT. Telecommunications companies offer this Internet of Things network as an addition to existing telecommunications networks. Nedap is partnering with several leading market parties to make this network technology compatible with parking applications. Worldwide, demand for greater insight into usage and availability of parking spaces continues to grow. Given the SENSIT solution's outstanding practical results and proven efficacy and sustainability, Identification Systems has acquired an excellent starting position in this attractive growth market.

The business unit's broad product portfolio is the perfect solution to the various markets' needs and requirements. Identification Systems' commercial clout will be further expanded over the next few years, with online marketing activities becoming increasingly important. These activities will be improved and intensified, and a new, more interactive website will be launched. The Identification Systems business unit is optimistic about the years to come and expects a further increase in revenue in 2018.

### Library Solutions

In 2017, the Library Solutions business unit (RFID systems for libraries) continued to work on streamlining its product portfolio, consequently posting lower revenue than in the previous financial year.

The market for RFID systems for libraries is still developing steadily worldwide, as libraries in an increasing number of countries are switching to RFID to automate the process of checking out books and collection management. The Library Solutions business unit taps into this development by expanding the global partner network to create commercial opportunities in new markets.

Given the major overlap between product portfolios, a decision was made to close the Library

Solutions business unit as of 1 January 2018, and to migrate this unit's operations to the Retail business unit. This should increase the efficiency and effectiveness of product development and back-office support. A dedicated team in the Retail business unit will further develop the strategy of using RFID technology to make libraries smarter and more innovative.
This organisational change will not involve additional costs.

### Light Controls

Revenue posted by the Light Controls business unit (power electronics and control systems for the lighting industry) in the financial year was down on 2016.

Revenue generated by Nedap lamp drivers for the UV-based disinfection market (treating water using intensive ultraviolet light) was down slightly in 2017. Ratification of the International Maritime Organization's (IMO) treaty in 2016 was supposed to make ballast water treatment compulsory worldwide as of September 2017. However, implementation of the treaty has been delayed until September 2019. As a result, new orders of Nedap UV lamp drivers for disinfection dried up and current orders were delayed. This had a major negative effect on revenue in this market. Revenue in this sub-market is not expected to return to growth until 2019.

In the curing market (UV drying and curing of industrial inks, coatings and adhesives), the Light Controls business unit managed to get more and more customers to use Nedap lamp drivers in their designs. The increase in sales of these devices has resulted in revenue growth. Given the favourable economic outlook, Light Controls expects a positive development of revenue in the curing market.

Revenue from lamp drivers for explosion-proof lighting were basically stable last year. LED lighting is expected to also start dominating this segment of the lighting market. Non-LED solutions containing Nedap products are therefore only future-proof to a limited degree. Prompted by poor commercial prospects, a decision was made to no longer invest in new developments and to phase out the current product portfolio over the coming years. For 2018, revenue in this market is expected to fall.

Steady progress is being made with the Luxon proposition (light management in the form of online LED light control) in North America and Europe. The IoT node that was launched in 2017 constituted a major breakthrough in the lighting market, as it makes it a lot cheaper and easier to integrate light fittings into smart lighting solutions without brand-related compatibility issues. These web-based lighting solutions make light controls wireless and demand-based, ensuring the lights are only on where and when needed. The resulting additional energy savings will halve the payback period of an investment in LED lighting systems.

The Light Controls business unit focuses specifically on large end customers in manufacturing, logistics or big-box retail with multiple sites. These kinds of customers spend a lot of money on power per light point, and therefore stand to gain the most in terms of savings when using Luxon. More and more manufacturers have incorporated the Nedap Luxon IoT node into their light fittings. As a result, an increasing number of installers has gained positive real-life experience with Luxon, boosting awareness of and trust in the Luxon proposition. Based on these developments, Light Controls expects to see further growth in revenue over the coming year.

This increase in revenue will not happen before 2019, but the business unit nonetheless expects revenue growth in 2018, based on its growth projections for Luxon.

## Livestock Management

The Livestock Management business unit (automation of livestock management processes based on identification of individual animals) posted a sound increase in revenue in 2017. Higher milk prices ensured that revenue in the dairy farming sector recovered faster than expected. Following delays in the construction of pigsties, several major pig farming projects were postponed to 2018, which meant that revenue in this sector remained stable despite a sharp increase in the number of orders placed.

### *Dairy farming*

After being extremely low for a long period, milk prices started to pick up in late 2016 and continued to rise throughout 2017. Investments that had been postponed were resumed sooner than expected, resulting in strong demand for Nedap's automation products worldwide. The only exception was the Dutch market, which continues to be plagued by a manure surplus that is forcing dairy farms to downsize to reduce manure production. Due to significant scarcity in the market for electronic components, the Livestock Management business unit was unable to fully keep up with soaring demand for its products, which led to longer lead times and orders being put off until 2018.

In 2017, the time and effort invested in the development of new distribution channels over the past few years started to pay off. After a difficult start during times of low milk prices, virtually all new business partners contributed significantly to revenue growth. Nedap's CowControl systems (monitoring of a cow's oestrus cycle and eating and rumination behaviour) and smart identification systems for milking sheds or milking robots in particular drove up revenue.

As dairy farms are continuing to increase their scale, demand for automation also keeps growing. The solutions offered by the Livestock Management business unit help dairy farms cut back on labour costs and make it easier for them to manage their cows. This enables dairy farms to keep more livestock without incurring extra work, thus staying competitive thanks to lower costs per litre of milk. Nedap systems alert the dairy farmer to cows that are displaying abnormal behaviour or that may have health issues. The advanced Cow Position System, which records behaviour parameters and tracks cows' location, subsequently allows the dairy farmer to rapidly find and treat the cow in question. These systems are generally sold in combination with milking robots. Demand for these robots grew considerably last year.

Thanks to the new generation of sensors, dairy farmers get ever greater amounts of detailed data, which big data technology converts into valuable information. The main challenge is to extrapolate concrete focus points from all this information, so that the dairy farmer can take targeted action. Livestock Management uses User eXperience or UX design techniques on an increasing scale to maximise ease of use of the systems and ensure they are seamlessly aligned with a particular dairy farm's working methods.
Data is collected locally and is increasingly also accessible through the cloud, creating opportunities for new kinds of services to the various parties in the milk supply chain, as well as opportunities for new business models.
To retain and expand its leading market position, the Livestock Management business unit will continue to invest in product innovation to the same great extent over the coming years, stepping up marketing activities to raise awareness of new product launches across the different channels. Support provided to current and new customers in successfully implementing Nedap solutions will furthermore be made more professional.

Although milk prices were no longer rising by the end of 2017, the Livestock Management business unit still expects investment across the dairy farming industry to remain solid. Based on their excellent market position, the Livestock Management business unit is confident that it will grow its market share and therefore see revenue increase.

*Pig farming*

After strong growth in 2016, the Livestock Management business unit's revenue growth in the pig farming industry stalled in 2017.
Pork sales showed a slight drop worldwide, especially in the United States, where Livestock Management saw its revenue fall as a result.
In China, on the other hand, revenue grew considerably.

Various integrators in North America and Asia have placed repeat orders for our group accommodation systems for sows,
which is confirmation that these solutions are indeed producing good results at large pig farms. This is an important positive signal to the market. Several companies have already indicated that they will be switching to the Nedap approach in the coming years.

Our investments in expanding our product portfolio for the pig farming industry are starting to bear fruit. Although electronic feeding stations for sows continue to be the most important proposition and generally the product for which customers first contact Nedap, revenue generated through other products is also growing. In the breeding industry, various leading global players have committed to using Nedap's Pig Performance Testing systems in expanding their production and research facilities. This solution allows for animal-friendly monitoring of pigs' individual growth development, which produces valuable insights into the various aspects of the genetics applied. Aside from that, a number of projects across Europe opted for Nedap Sorting equipment, while demand for our farrow feeding solution is growing in China.

This expansion of our product range has made us a strong potential partner to major pig integrators. From this position of equality, large end users are increasingly contacted directly to build long-term relationships.
The quality of the products, expert knowledge, outstanding technical and financial results on projects, and widespread trust in Nedap as a partner are the main reasons why companies choose to do business with Nedap.

Opportunities are also arising in pig farming to create and sell advanced functionality based on software services.
There are excellent commercial opportunities in the area of smart analysis in particular, which supports cattle farmers in optimising their production results. To seize such opportunities, the Livestock Management business unit worked on a software subscription model last year, which is set to be introduced over the course of 2018. This new software services model enables the business unit to sell extra features to both new and existing customers in the longer term.

Besides reinforcing the sales teams and expanding the number of distribution channels, the Livestock Management business unit is dedicating ample time to the transition from indirect to direct contact with major pig production companies and integrators. Targeted training is used to develop the required sales skills. Aside from intensive online marketing activities aimed at the target group, face-to-face contact with potential and existing customers continues to be important. We therefore take part in and visit numerous trade shows across the globe.

In light of the backlog at the end of 2017 and excellent commercial opportunities in the new year, the Livestock Management business unit expects to achieve growth in revenue in the pig farming sector once again. Since the outlook for Nedap products in the dairy farming sector is positive, the business unit as a whole is confident going into 2018 and expects continued revenue growth.

### Retail

The Retail business unit (security, management and information systems for the retail sector) once again posted increased revenue in 2017, mainly on the back of growth achieved in North America.

Around the world, retailers are looking for the right mix of bricks-and-mortar stores and online retailing. Almost all traditional retailers have meanwhile launched online shops as well, and online retailers are increasingly opening up bricks-and-mortar stores. What all these retailers aim to do is develop and implement a successful omnichannel strategy, in an effort to meet customer demand through all available channels. To be able to offer the short delivery times that people want, purchases are home-delivered from shops on an increasing scale. With new shop formats based on this principle, retailers are responding to consumers' increasingly higher demands and requirements.

Such formats can only work when retailers have accurate information on the availability of individual items at each of their stores, and this is where Nedap's !D Cloud software platform comes in. The !D Cloud enables fast and accurate processing of large quantities of data from different kinds of RFID readers without having physical servers at every branch. Opting for this cloud-based solution means lower pre-investments for retailers, and it can be rolled out at hundreds of stores within a retail network in no time.

With !D Cloud, Nedap offers a powerful, hardware-independent platform to which new features are added all the time to support retail chains' logistics processes. Besides Nedap RFID readers, third-party readers can also interface with the platform. Other companies are also offered the option of building add-ons for the platform using standard interfaces. The first independent software developer has meanwhile developed a virtual point-of-sale app that allows shoppers to pay at the store using the self-serve checkout option. As this app is linked to !D Cloud, !D Cloud will subsequently disable the anti-theft alarm of the items for which the customer has just paid. Such third-party add-ons enrich the !D Cloud ecosystem in terms of functionality, making it more competitive and offering retailers more options.

The Retail business unit stands out in the market through its standard cloud-based solution. Many of the unit's competitors lack this kind of advanced platform, and rely on project approaches with more conventional technology, which means they have to custom-make a solution for every individual retailer. Of all suppliers of RFID-based inventory control systems, Nedap currently serves and has contracts with the largest number of stores, giving it a leading market position. Even though it is hard to predict when this market will enter its strong growth phase, the Retail business unit is ideally placed to tap into this growth potential.

The launch of the !Sense Lumen antenna further adds to the strength of the !Sense product line. Elegant design is combined with powerful functionality for things such as footfall counting and programmable sound and light alerts. Thanks to the smart design, the !Sense Lumen can be deployed cost-effectively both in fashion retail environments and at supermarkets of all sizes. As standard, the antenna is equipped with a hybrid RF/RFID reader to enable a smooth transition to RFID. Needless to say, the !Sense Lumen can be connected directly to the !D Cloud platform.

The sales team operating in the North American retail market continues to do extremely well. During the financial year, Nedap antennas were fitted at more than 1,500 outlets of a leading food retailer. This shows that Nedap is now also able to successfully handle large-scale projects at retail chains that operate on a nationwide scale in the USA. As a result, Nedap is increasingly seen as a fully-fledged alternative to the usual competitors, thus further strengthening its position in this market.

There are plenty of commercial opportunities for both classic anti-theft solutions for shops and RFID-based inventory control systems, so the business unit intends to launch new propositions that meet retailers' needs in these areas and therefore achieve a further growth in revenue in 2018.

### Security Management

Just like in previous years, the Security Management business unit (physical security systems) continued its revenue growth in 2017 and increased its market share in the European market once again. In the security market, switching security systems comes with high costs. Partly owing to the costs involved, commercial processes at major new customers can end up taking years. After such customers have chosen Nedap, it can still take a long time for the first projects to actually get underway and for revenue to be generated. Due to these specific features of this market, major shifts in market shares are not likely.

To be able to operate successfully, the Security Management business unit pursues a strategy with a long-term focus. This unit continues to work on increasing its products' differentiating qualities and its commercial clout, steadily raising its competitive edge year after year, especially for large-scale and more complex projects at, for example, multinational companies, defence organisations and institutions that operate critical infrastructure. On the back of this, the number of doors connected to the AEOS platform keeps growing. This strategy requires a lot of patience and staying power. Thanks to this consistently pursued strategy, the Security Management business unit has managed in recent years to conquer a market position that is both strong and relatively easy to defend, which is a crucial precondition for good returns on investment in this market.

Security Management continues to invest in the further development of the AEOS platform and marketing, while also working hard on expanding and strengthening the partner network. Thanks to an extensive training programme and outstanding support by the Security Management business unit, increasing numbers of leading system integrators are opting to use Nedap systems for their projects. This is giving end customers a wider choice of partners who can execute their security projects, giving this business unit access to more potential customers through these partners.
The Security Management business unit also stands out in the market with its Global Client Programme, through which Nedap offers European organisations with cross-border operations a tried-and-tested methodology for successful implementation of a standardised security policy based on AEOS. This unique approach helps customers keep the risks involved in running such complex programmes under control. Nedap's programme has prompted several leading organisations to choose Nedap's security solution in 2017.

Last but not least, the previous years' investments in support for security consultants are starting to bear fruit. The challenge is to make it as easy as possible for this influential group to develop value-added security advice and designs based on the Nedap platform. As a result, more and more projects in which these consultants play a role are incorporating Nedap products into their designs and requiring the use of Nedap products. This commercial approach does require a pre-investment, but the results are certainly encouraging.

The European security management market is expected to grow steadily over the coming years, and the Security Management business unit therefore believes that the strategy outlined above will enable it to gradually expand its position in the market and consequently produce revenue growth in 2018.

### Staffing Solutions

The Staffing Solutions business unit (digitised timesheet processing, planning and employee scheduling) saw revenue grow in the financial year, partly on the back of growth in the staffing market and a rise in the number of new PEP customers. Furthermore, several customers decided to migrate all of their timesheet processing activities to the PEP software service, which resulted in more timesheets processed and therefore an increase in the business unit's revenue.

The Staffing Solutions business unit has two spearheads.
With its Workforce Management solution, Staffing Solutions helps large companies tackle the growing problem of managing their pool of permanent and temporary staff, as well as all related aspects. Workforce Management lets companies schedule, align and track the activities of both groups of employees. On the back of the savings realised by the first customers to adopt Workforce Management, the Staffing Solutions business unit expects to be able to grow the customer base for this software service.

The Flex Core proposition is another product from Staffing Solutions' range, which is intended to improve the value of the business unit's solutions for staffing agencies and increase the number of hours processed using PEP at the staffing agency. Smart software features minimise administrative tasks and provide access to action-based information, making life a lot easier for intermediaries in their day-to-day activities, enabling them to focus more on what they do best, i.e. matching the right people to the right jobs.

On top of all of this, 2017 also saw hard work on strengthening the Staffing Solutions business unit's marketing clout. New marketing materials and a new website have brought greater visibility to the market and better support for the sales process. One key aim behind these marketing investments is to grow the number of potentially successful commercial leads and thus increase the business units' market share.

Continuous investments in functionality and marketing have given the business unit's solutions a more significant and more prominent position on the various employee services markets. Overall, the combination of growth in the staffing market, an increased number of customers and more timesheets processed per customer are therefore expected to create further growth in 2018. Aside from that, Staffing Solutions is also exploring opportunities for growth outside the Netherlands. In 2018, the first Belgian-based staffing agencies will start using Staffing Solutions products. So far, the business unit's international activities have little impact on revenue.

### Energy Systems

Late 2017 saw the discontinuation of the Energy Systems business unit as planned. Its activities have been downsized and now only involve service and guarantee-related tasks for existing customers. These activities will be taken over by Nedap Smart. The closure of the Energy Systems business unit came with one-off costs of €0.8 million in 2017.

## Nedap Smart

Over the past few years, hard work has gone into outsourcing Nedap's production and logistics activities. The activities that have not been outsourced have been brought together in Nedap Smart as of 1 January 2017.

Nedap Smart takes care of automated production and programming of labels and cards for various business units. A new centre was also set up to handle repairs, including all associated administrative tasks, for all business units. Besides that, Nedap Smart produces small series of customer-specific products or puts together prototypes, albeit on a small scale.
Thanks to its warehouse and shipping facilities, Nedap Smart is able to support the business units in their global logistics needs. The plastics department and tool manufacturing section are also part of this new business unit.

By merging these units, we are bringing together knowledge and experience in the areas of production and logistics, empowering Nedap Smart to provide high-quality services. This is confirmed by Nedap Smart's ISO 9001 and ISO 14001 certification, meaning that its quality and environmental management practices meet high standards.

### Sale of Nsecure

Following its sale, the Nsecure B.V. subsidiary was deconsolidated in November 2017 with retroactive effect. Up to the sale date, Nsecure posted €1.3 million in profit, which - together with the book profit of €17.8 million resulting from the sale - was recognised in the statement of profit or loss as 'Profit in the financial year from discontinued operations' and amounts to €19.1 million. For the purposes of comparison, the figures and percentages relating to profits and mentioned in the following have been adjusted to assume that Nsecure was not part of Nedap in 2016.

### Revenue

Overall revenue in 2017 amounted to €182.2 million, which was up 12% on 2016 (€163.2 million).
Recurring revenues (subscriptions and maintenance contracts) increased by 22% to €30.9 million (€25.4 million in 2016) and comprised 17% of the overall revenue (16% in 2016).

The value added of €112.7 million represents 62% of revenue (65% in 2016).
This percentage has decreased, as expected, since the outsourcing has led to wages and salaries being included in the purchase price of products. Value added achieved in 2017 amounted to €172,000 per FTE (€164,000 in 2016).

### Costs and profit/loss

Personnel costs rose by €7.4 million to €67.2 million. The reasons for this included the additional employees hired for marketing & sales and product development, but also the fact that employees made redundant by the supply chain reorganisation were still employed for a significant part of the year before leaving the company in late 2017.
NAPP costs of €0.8 million were also recognised as personnel costs in 2017. Personnel costs included one-off items in both 2017 and 2016.

Other operating costs were up €2.2 million to €27.7 million and included one-off items, just like in 2016.

Due to the supply chain reorganisation, investments in tangible fixed assets were limited in recent years. As a result, depreciation of tangible fixed assets fell by €0.5 million to €6.9 million in the 2017 financial year.
Amortisation of intangible fixed assets dropped by €0.6 million to €0.8 million due to the limited capitalisation of development costs in recent years. Development costs stood at €23.5 million (€20.5 million in 2016), and like in 2016, none of this amount has been capitalised.
The development costs mainly consist of personnel costs.
Impairment totalled €0.3 million in 2017, consisting of one-off non-cash impairment of assets.

The operating profit reported amounted to €9.9 million (€10.7 million in 2016).

One-off costs included in the operating profit totalled €6.0 million, of which €3.5 million was recognised as personnel costs, €2.3 million as other costs and €0.3 million as impairment of assets.
Other costs also include a book profit of €0.7 million achieved on the sale of tangible fixed assets.
The supply chain reorganisation created one-off costs of €3.9 million, and there were also one-off costs of €0.8 million and €0.3 million for the phase-out of the Energy Systems business unit and the reorganisation in Spain respectively. Settlement of the old pension plan did not produce any one-off profits or losses in 2017.
The sale of Nsecure created one-off costs totalling €1.1 million. The subsidiary's profit for the 2017 financial year and the book profit achieved upon sale have been recognised as 'Profit in the financial year from discontinued operations' and amounts to €19.1 million.
The 2017 annual report provides a detailed breakdown of one-off costs from 2017 and 2016.

In 2017, the operating profit, excluding the aforementioned one-off items, rose 31% to €15.9 million or 9% of revenue (€12.2 million or 7% of revenue in 2016).

Amounting to €0.2 million, net financing costs were at the same level as in 2016. The share in our associate Nedap France's profit rose by €0.3 million in 2017 to €0.9 million.

The total tax rate for continued and discontinued operations amounted to 5.8% (18.3% in 2016). This low percentage is largely due to the book profit posted on the sale of Nsecure not being subject to taxation. If this book profit is not taken into account, the tax rate is 17.3%.
A new agreement to apply the Innovation Box tax regime in the 2017-2021 period has been made with the Dutch Tax and Customs Administration on conditions similar to those for the agreement made in 2016.

| | Explanation/note (€ x 1,000) | 2017 | | 2016 | |
|---|---|---|---|---|---|
| **Operating profit/loss** | | | 9,927 | | 10,697 |
| Personnel costs | 17 | 2,202 | | 587 | |
| Other operating costs 1) | 21 | 1,512 | | 413 | |
| Impairment of assets | 20 | 163 | | 848 | |
| ***Supply chain reorganisation*** | | | 3,877 | | 1,848 |
| Personnel costs | 17 | - | | -297 | |
| Other operating costs | 21 | 768 | | 432 | |
| Impairment of assets | 20 | - | | 52 | |
| **Energy Systems phase-out** | | | 768 | | 187 |
| Personnel costs | 17 | 1,057 | | | |
| **Sale of Nsecure** | | | 1,057 | | |
| Personnel costs | 17 | 206 | | | |
| Impairment of assets | 20 | 101 | | | |
| **Iberia reorganisation** | | | 307 | | |
| Personnel costs | 17 | - | | -560 | |
| **Settlement of the old pension plan** | | | - | | -560 |
| Operating profit excluding one-off items | | | 15,936 | | 12,172 |
| **Total** | | | | | |
| Personnel costs | | 3,465 | | -270 | |
| Other operating costs | | 2,280 | | 845 | |
| Impairment of assets | | 264 | | 900 | |
| | | | 6,009 | | 1,475 |

*1) Including book profit of €0.7 million on the sale of assets*

The profit for the financial year came in at €28.0 million (€10.8 million in 2016).

## Financing and capital structure

The 2017 balance sheet total rose by €2.8 million to €113.8 million, a rise that is largely due to the €2.4 million increase in inventories to €31.5 million or 17% of revenue (€29.0 million or 18% of revenue in 2016). Since buffer inventories are in place during the supply chain reorganisation, the inventories are relatively high when seen as a percentage of the revenue.

The sale of Nsecure generated net proceeds of €25.3 million, €12.4 million of which were used to purchase 4.2% of the company's own shares in order to cover employee participation plans. The remaining €12.9 million were used to repay short-term debt. Net debt decreased by less than €12.9 million in 2017 (net debt decreased by €9.2 million to €14.2 million) due to the increase in inventories and payment of one-off costs in connection with the supply chain reorganisation.
Net debt/EBITDA stood at 0.6 at the end of 2017 (1.1 at year-end 2016).

A credit agreement was sealed with Nedap's main bank in 2016, with committed credit facilities - including seasonal amounts - totalling €44.0 million up to May 2023. No covenants have been agreed for these facilities, which have a flexible repayment schedule and take seasonal patterns into account. By the end of 2017, committed credit facilities - excluding seasonal amounts - totalled €41.0 million (€41.1 million at year-end 2016). €16.0 million from these facilities are in use.

## Liquidity and solvency

Cash and cash equivalents were €1.8 million as at 31 December 2017 (€2.3 million in 2016), while solvency rose 5% in 2017 to 55%.

## Return on invested capital

Return on invested capital (ROIC, i.e. the operating profit/loss excluding one-off items, divided by invested capital) rose 3% to 22% in 2017.

## Earnings per share and dividend

Earnings per share came in at €4.21 in 2017 (€1.61 in 2016). Excluding one-off items, this figure was €2.02 (€1.77 in 2016). Dividend per share for 2017 amounted to €2.50 (€1.40 in 2016).

Besides financing the aforementioned purchase of the company's own shares, net proceeds from the sale of Nsecure were used for a one-off increase in the dividend for 2017. Part of these net proceeds was retained to finance temporarily larger inventories, make severance payments related to the supply chain reorganisation in early 2018 and finance investments in the Groenlo building.

For further details about financial risk management, please refer to the 'Nedap and risk management' section.

## *Outlook*

Nedap focuses on smart applications of technology to help solve the challenges of today and tomorrow. In recent years, we have constantly worked to gear our organisation towards those customer groups, products and activities for which we can really make a difference. By fully focusing our talents on this goal, we will increase our impact on our markets.

The development and expansion of our market position is a lengthy process, and one that requires plenty of perseverance and drive. It is often impossible to predict when we will achieve commercial and financial success, but the robustness of our organisation will give us the patience we need to claim a leading market position. What is more, all of our business units can draw on the ample expertise in technology, markets and processes available throughout the organisation as a key tool in setting Nedap apart from other market players and maintaining a strong competitive position.

Continuous investment in developing our propositions and commercial strength has enabled us to expand our position on the various markets and enter new ones. A keen focus on maintaining a solid balance sheet and long-term financing arrangements will result in a strong financial foundation. We are confident about the future and expect healthy long-term growth. On this basis, we expect a further increase in revenue in 2018, unforeseen circumstances notwithstanding.

Groenlo, Netherlands, 15 February 2018

Board of Directors:
R.M. Wegman
E. Urff

## Long-term value creation

Nedap develops propositions that are focused on solving relevant practical problems in different markets. These propositions are based on the four core fields of technology in which Nedap operates, i.e Connected Devices, Communication Technology, Software Architecture and User eXperience. When a proposition is well-received by the market, we deploy targeted commercial strategies to scale up the proposition's market impact, ultimately aiming for a leading market position.
A leading role in a market not only confirms the proposition's market relevance, it is also essential in achieving long-term value creation.

Creating and scaling up propositions is not easy. It takes a lot of effort and perseverance to keep tweaking and further developing the proposition to achieve commercial success. And it takes time, a lot of time. It is not uncommon for it to take between five and ten years for a new proposition to conquer a prominent position in a market.

Our approach can best be described as one of 'Urgent Patience'; working with great urgency every day while accepting the fact that it may take a long time for results to materialise.
We are convinced that this form of autonomous value creation not only suits Nedap down to the ground, but will also produce above-average financial performance in the long run.

This belief also underpins our approach at Nedap of always looking at the long-term effects of our actions. For example, we never give additional discounts to hit a certain revenue target for a specific quarter or year, as that ultimately always costs more than it yields. In the same vein, we do not believe in aggressive bonus schemes with ambitious revenue targets. Time and time again, it has turned out that the long-term negative impact on our reputation and customer satisfaction levels far outweighs the short-term effects of such schemes.

We operate from a solid financial position with conservative financing, which gives us an ability to absorb setbacks and guarantees that we have sufficient resources available. As a result, we always have the financial leeway we need to consider long-term value creation when making investment decisions. When it comes to capitalising development costs, for example, we always exercise caution, because when you do decide to go down that route, you may be presenting seemingly better results in the short term, but you still have to recognise all these capitalised items in your expenditure and they will end up adding to balance sheet risks.

This approach also has an effect on how we handle our business relationships. Although we know that 'clever' presentation of the aspects of a proposition may boost sales in the short term, we also know that if we subsequently fail to meet customer expectations, our reputation and long-term revenue opportunities will take a hit.

Software services represent a growing part of our revenue, which underlines the fact that our customers are confident that the data they entrust to us is in safe hands.
To live up to this trust in the long term, Nedap has adopted a proactive approach when it comes to GDPR-readiness and cybersecurity.

Our long-term perspective also influences our behaviour towards our employees. We aim to be as transparent as possible, also when making impactful decisions. Most of the employees who were made redundant following the supply chain reorganisation, for example, were briefed on the upcoming termination of their employment over two years ahead of time. We believe that open communication with employees will not only increase trust in and support for our strategic direction, but also strengthen employees' dedication and commitment to implementing the strategy.

It is important to us to not only use our employees' knowledge and experience, but also to keep developing it. With this in mind, we offer our employees ample opportunity for personal growth and we invest in this personal growth. The Nedap Additional Participation Plan is also in keeping with our objective of making the development of Nedap and its people a shared interest of both employees and shareholders.

Our long-term vision also underlies our environmental views. We believe that it is better to protect the environment now than repair it later. Many of our propositions are therefore focused on reducing waste in a wide range of areas, including animal feed, parking, retail and energy consumption. Our products are always designed with the environment in mind, minimising the energy they consume to fulfil a certain purpose. Aside from that, we offer long-term support with the systems we sell, with a view to ensuring they will not need replacing any time soon.

We have, of course, also taken a critical look at our environmental impact internally. At our head office in Groenlo, we use only renewable power and are increasingly implementing energy-saving technology such as LED lighting and heat exchangers. The environmental risk involved in our production operations in Groenlo is kept under control by our ISO 14001-certified environmental management system. We try to set the same (or similar) requirements for all our production partners wherever possible, and we regularly audit them for compliance.

We trust our employees' judgement, so we do not have elaborate codes of conduct with strict rules at Nedap, but only a few basic principles to go by in individual decision-making. At Nedap, we try to work without formal rules as much as possible. Leave, for example, is no longer registered, as employees now agree between themselves when to take holiday leave. We have no complicated rules for expense claims, and yet everyone knows exactly what they can and cannot realistically claim.

We also have one very simple basic principle when it comes to conduct. In everything you do, imagine that the whole world could see it, and then ask yourself if you would still do it. If the answer is no, it is probably not a very good idea to go ahead with it. In the long run, the downsides will then almost always be greater than the short-term benefit you would gain through what you intended to do.

We are of the opinion that this simple principle should be enough to guide our employees' conduct in the right direction.

Unfortunately, in today's juridified society, this simply will not do, and we have therefore had to compile formal rules of conduct. Our rules of conduct specify a range of different behavioural guidelines that we consider self-evident, such as our commitment to always approaching our partners and customers in an ethically responsible manner and never becoming involved in corruption and bribery.
We also do not want any involvement in matters that go against the UN's guiding principles on business and human rights.

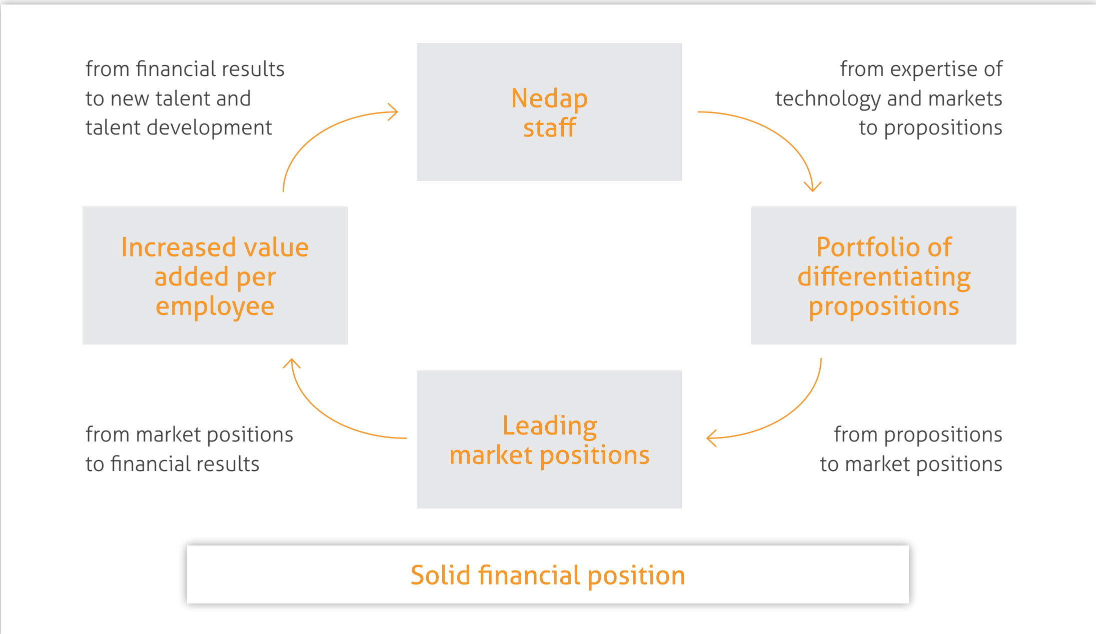
Despite our healthy dislike of rules, we are very strict when it comes to applying the law and regulations. We not only abide by the letter of the law, our actions are also guided by the spirit of the law.

Our value creation model is focused on raising value added per employee for the long term.
This model starts with the employees and their market and technology insights. Their knowledge, experience and skills are applied in creating elegant and effective technological solutions to relevant practical problems in different markets.

Through ingenious sales and distribution models, targeted market activities and high-quality support, these solutions are combined to form propositions that set the tone in the market,
with our ultimate aim being to build leading positions in attractive markets.

Strong market positions are not only proof of our relevance, they are also essential for solid financial performance.
To us, these results, and value added per employee in particular, underline the fact that we have not only managed to attract the best people, but also that we are successful in effectively deploying these people to make a lasting difference in the markets in which we operate. Besides, high value added per employee also allows us to invest more in the further development of our people and in recruiting new talent, thereby closing the circle of the value creation model and creating a self-reinforcing effect.

We believe that value added per employee can only enter a long-term upward trend when all stakeholders - employees, customers, shareholders and society as a whole - share in the benefits of our company's development. Value added per employee is therefore one of our company's key performance indicators, and what drives us in making strategic choices on the range of different fundamental issues that a company such as Nedap faces.




Value creation model

## Statement pursuant to Article 5:25c(2c) of the Dutch Financial Supervision Act

To the best of our knowledge.

1 the financial statements (with Other information as specified in Article 2:392 of the Dutch Civil Code) provide a faithful representation of the assets, liabilities, financial position, and profit/loss of Nedap N.V. and the companies included in the consolidation; and

2 the annual report provides a faithful representation of the position at 31 December 2017 and the development and performance during the 2017 financial year of Nedap N.V. and the undertakings included in the consolidation taken as a whole and the 2017 annual report describes the significant risks Nedap N.V. is facing.

Groenlo, Netherlands, 15 February 2018

Board of Directors:
R. M. Wegman
E. Urff

# 03 Financial targets

Nedap's primary financial target is sustainable value creation in the form of cash flow-generating company equity in the short and the long term.

Through the Changing Gears programme, Nedap expects to achieve the following financial results:

1. High and growing value added per FTE.

2. Long-term autonomous revenue growth. Recurring revenue that outgrows total revenue in the coming years.

3. Operating profit, excluding one-off items, of at least 10% in 2018, increasing further in the following years.

4. Return on invested capital (ROIC) that outgrows profitability.

5. A conservative financing structure reflected by a solvency rate of at least 45% and net debt / EBITDA of a maximum of 1.5. Temporary deviation from this target is possible for strategic reasons.

6. Profits are paid out to shareholders, after deduction of the amount needed for investments in profitable growth and the intended financial structure. Given the organisation's increased capital efficiency and scalability, we expect high pay-out ratios over the coming years too.

| | 2017 | Ex Nsecure 2016 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| **Operations** | | | | | | |
| € x 1,000 | | | | | | |
| Revenue | **182,185** | 163,244 | 185,959 | 180,875 | 177,193 | 173,696 |
| Revenue growth | **12%** | | 3% | 2% | 2% | 1% |
| Recurring revenues 1) | **30,916** | 25,437 | 33,283 | 28,297 | 23,643 | 20,953 |
| Growth in recurring revenues | **22%** | | 18% | 20% | 13% | 16% |
| Recurring revenues as % of revenue | **17%** | 16% | 18% | 16% | 13% | 12% |
| Value added 2) | **112,696** | 105,683 | 118,379 | 112,933 | 113,886 | 109,921 |
| - as % of revenue | **62%** | 65% | 64% | 62% | 64% | 63% |
| - per FTE | **172** | 164 | 158 | 153 | 155 | 152 |
| Development costs | **23,484** | 20,532 | 20,676 | 20,191 | 20,303 | 18,693 |
| - as % of value added | **21%** | 19% | 18% | 18% | 18% | 17% |
| - as % of revenue | **13%** | 13% | 11% | 11% | 12% | 11% |
| Operational cash flow | **13,289** | | 9,244 | 13,089 | 30,696 | 19,162 |
| EBITDA | **17,545** | 19,480 | 22,206 | 13,085 | 33,130 | 21,767 |
| - as % of revenue | **10%** | 12% | 12% | 7% | 19% | 13% |
| EBITDA excluding one-off items | **23,554** | 20,955 | 23,681 | 20,686 | 23,004 | 21,767 |
| - as % of revenue | **13%** | 13% | 13% | 11% | 13% | 13% |
| Operating profit/loss | **9,927** | 10,697 | 12,817 | 3,490 | 22,573 | 11,751 |
| - as % of revenue | **5%** | 7% | 7% | 2% | 13% | 7% |
| Operating profit excluding one-off items | **15,936** | 12,172 | 14,292 | 11,091 | 12,447 | 11,751 |
| - as % of revenue | **9%** | 7% | 8% | 6% | 7% | 7% |
| Operating profit growth | **31%** | | 29% | -11% | 6% | -28% |
| Profit for the financial year | **28,035** | 10,779 | 10,779 | 4,652 | 17,881 | 9,807 |
| - as % of revenue | **15%** | 7% | 6% | 3% | 10% | 6% |
| **Profit appropriation** | | | | | | |
| € x 1,000 | | | | | | |
| Profit distributable to shareholders | **15,959** | | 9,370 | 8,567 | 8,366 | 7,362 |
| Retained earnings | **12,076** | | 1,409 | -3,896 | 9,511 | 2,430 |
| Minority interest profit | **-** | | - | -19 | 4 | 15 |
| **Per share of €0.10** 3) | | | | | | |
| in € | | | | | | |
| Operational cash flow | **2.00** | | 1.38 | 1.96 | 4.59 | 2.86 |
| Profit for shareholders | **4.21** | | 1.61 | 0.70 | 2.67 | 1.46 |
| Profit excluding one-off items | **2.02** | | 1.77 | 1.67 | 1.46 | 1.46 |
| Dividend | **2.50** | | 1.40 | 1.28 | 1.25 | 1.10 |
| Pay-out percentage | **59%** | | 87% | 183% | 47% | 75% |
| Highest price | **44.51** | | 33.84 | 34.75 | 33.50 | 33.66 |
| Lowest price | **33.10** | | 28.20 | 26.05 | 26.00 | 27.65 |
| Price at year-end | **44.51** | | 33.40 | 30.80 | 26.78 | 30.00 |
| Price/profit ratio at year-end | **11** | | 21 | 44 | 10 | 21 |

*2013-2016 figures include Nsecure BV*

| | 2017 | Ex Nsecure 2016 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| **Financing** | | | | | | |
| € x 1,000 | | | | | | |
| Net debt | **14,196** | 23,357 | 23,884 | 18,869 | 17,691 | 33,899 |
| Net debt / EBITDA excluding one-off items | **0.6** | 1.1 | 1.0 | 0.9 | 0.8 | 1.6 |
| Shareholders' equity 4) | **61,962** | 55,851 | 55,851 | 52,884 | 56,451 | 53,569 |
| Balance sheet total | **113,782** | 110,939 | 116,641 | 110,916 | 112,129 | 126,182 |
| Solvency 5) | **55%** | 50% | 48% | 48% | 50% | 43% |
| **Utilisation of capital** | | | | | | |
| € x 1,000 | | | | | | |
| Intangible fixed assets | **1,689** | 2,373 | 3,247 | 4,665 | 5,805 | 10,530 |
| Tangible fixed assets | **35,753** | 35,830 | 40,692 | 42,430 | 45,219 | 48,001 |
| Inventories | **31,477** | 29,038 | 29,397 | 24,728 | 23,437 | 25,811 |
| - as % of revenue | **17%** | 18% | 16% | 14% | 13% | 15% |
| Net working capital 6) | **33,982** | 29,640 | 31,675 | 20,768 | 19,784 | 24,999 |
| - as % of revenue | **19%** | 18% | 17% | 12% | 11% | 14% |
| Invested capital 7) | **71,704** | 63,995 | 75,886 | 68,078 | 71,139 | 84,652 |
| ROIC 8) | **22%** | 19% | 19% | 16% | 18% | 14% |
| **Number of employees** | | | | | | |
| Year-end | **655** | 674 | 783 | 765 | 761 | 744 |
| Yearly average | **678** | 666 | 775 | 763 | 757 | 742 |
| **FTEs** | | | | | | |
| Year-end | **637** | 651 | 756 | 741 | 739 | 721 |
| Yearly average | **657** | 645 | 751 | 739 | 735 | 723 |
| **Shares in issue** | | | | | | |
| Year-end 9) | **6,383,546** | 6,692,920 | 6,692,920 | 6,692,920 | 6,692,920 | 6,692,920 |
| Yearly average 9) | **6,651,543** | 6,692,920 | 6,692,920 | 6,692,920 | 6,692,920 | 6,692,920 |

*1) revenue from subscriptions and maintenance contracts*
*2) value added per FTE is revenue less inventory movements, the cost of materials, outsourced work and logistics costs divided by the average number of FTEs*
*3) based on the average number of shares in issue*
*4) shareholders' equity is exclusive of the minority interest*
*5) solvency is the shareholders' equity 4) divided by the balance sheet total*
*6) net working capital is current assets excluding cash and cash equivalents, less employee benefits, provisions, deferred tax liabilities, income tax payable, taxation and social security contributions, trade liabilities and other payables*
*7) invested capital is fixed assets + net working capital - (associate & non-consolidated company)*
*8) Return On Invested Capital (ROIC) is EBIT excluding one-off items, divided by the invested capital*
*9) explained in note 8 to the consolidated financial statements*

05

# financial statements

## Consolidated balance sheet as at 31 December

*(€ x 1,000)*

| | note | | 2017 | 2016 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Fixed assets** | | | | |
| Intangible fixed assets | 1 | 1,689 | | 3,247 |
| Tangible fixed assets | 2 | 35,753 | | 40,692 |
| Financial fixed assets | 3 | 4,454 | | 3,849 |
| Deferred tax assets | 4 | 280 | | 272 |
| | | | 42,176 | 48,060 |
| **Current assets** | | | | |
| Inventories | 5 | 31,477 | | 29,397 |
| Income tax receivable | | 1,029 | | 842 |
| Trade and other receivables | 6 | 37,260 | | 36,013 |
| Cash and cash equivalents | 7 | 1,840 | | 2,329 |
| | | | 71,606 | 68,581 |
| | | | 113,782 | 116,641 |
| **Liabilities** | | | | |
| **Group equity** | | | | |
| Shareholders' equity | 8 | | 61,962 | 55,851 |
| **Non-current liabilities** | | | | |
| Borrowings | 9 | 14,282 | | 14,953 |
| Derivatives | 10 | - | | 92 |
| Employee benefits | 11 | 789 | | 765 |
| Provisions | 12 | 1,119 | | 994 |
| Deferred tax liabilities | 13 | 471 | | 619 |
| | | 16,661 | | 17,423 |
| **Current liabilities** | | | | |
| Borrowings | 9 | 85 | | 127 |
| Derivatives | 10 | - | | 31 |
| Employee benefits | 11 | 53 | | 23 |
| Provisions | 12 | 1,491 | | 4,824 |
| Bank overdrafts | 14 | 1,669 | | 11,010 |
| Income tax payable | | 120 | | 230 |
| Taxation and social security contributions | | 1,763 | | 2,848 |
| Trade and other payables | 15 | 29,978 | | 24,274 |
| | | 35,159 | | 43,367 |
| **Total liabilities** | | | 51,820 | 60,790 |
| | | | 113,782 | 116,641 |

*Consolidated statement of profit or loss*

*(€ x 1,000)*

| | note | | 2017 | 2016 |
|---|---|---|---|---|
| **Revenue** | 16 | | 182,185 | 163,244 |
| Cost of materials and outsourced work | | -71,799 | | -63,255 |
| Inventory movements of finished goods and work in progress | | 2,310 | | 5,694 |
| | | | -69,489 | -57,561 |
| Value added | | | 112,696 | 105,683 |
| Personnel costs | 17 | -67,214 | | -59,833 |
| Amortisation | 18 | -755 | | -1,377 |
| Depreciation | 19 | -6,863 | | -7,405 |
| Impairment of assets | 20 | -264 | | -900 |
| Other operating costs | 21 | -27,673 | | -25,471 |
| | | | -102,769 | -94,986 |
| **Operating profit/loss** | | | 9,927 | 10,697 |
| Financing income | | 66 | | 74 |
| Financing costs | | -269 | | -288 |
| Value movements in derivatives | | - | | - |
| **Net financing costs** | | | -203 | -214 |
| Associate share of profit (after income tax) | 22 | | 877 | 617 |
| **Result before taxation from continued operations** | | | 10,601 | 11,100 |
| Taxation | 23 | | -1,678 | -1,927 |
| **Result in the financial year from continued operations** | | | 8,923 | 9,173 |
| Result in the financial year from discontinued operations | 24 | | 19,112 | 1,606 |
| **Profit for the financial year** | | | 28,035 | 10,779 |
| Profit attributable to shareholders of Nedap N.V. | | | 28,035 | 10,779 |
| Average number of shares in issue | 8 | | 6,651,543 | 6,692,920 |
| Earnings per ordinary share from continued operations (in €) | | | 1.34 | 1.37 |
| Diluted earnings per ordinary share from continued operations (in €) | | | 1.34 | 1.37 |
| Earnings per ordinary share (in €) | | | 4.21 | 1.61 |
| Diluted earnings per ordinary share (in €) | | | 4.21 | 1.61 |

*Consolidated statement of comprehensive income*

*(€ x 1,000)*

| | | 2017 | 2016 |
|---|---|---|---|
| Result in the financial year from continued operations | 8,923 | | 9,173 |
| Result in the financial year from discontinued operations | 19,112 | | 1,606 |
| **Profit for the financial year** | | 28,035 | 10,779 |
| **Unrealised profit/loss** | | | |
| Items that will (or may) be reclassified to profit or loss after initial recognition: Currency translation differences | -87 | | -62 |
| **Unrealised profit/loss over the reporting period after taxation** | | -87 | -62 |
| **Total realised and unrealised profit/loss for the financial year** | | 27,948 | 10,717 |
| **Total realised and unrealised profit/loss attributable to:** | | | |
| Nedap N.V. shareholders | | 27,948 | 10,717 |

*Consolidated statement of cash flows*

*(€ x 1,000)*

| | note | 2017 | | 2016 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Profit in the financial year from continued operations | | | 8,923 | 9,173 |
| | | | | |
| Adjustments for: | | | | |
| Depreciation and amortisation including impairment | 18,19,20 | 7,882 | | 8,782 |
| Book profit/loss on sale of tangible fixed assets | | -704 | | -12 |
| Share in profit of associate | 22 | -877 | | -617 |
| Exchange differences for participations | | 1 | | 16 |
| Net financing costs | | 203 | | 214 |
| Share-based remuneration | | 822 | | 396 |
| Income taxes | 23 | 1,678 | | 1,927 |
| | | | 9,005 | 10,706 |
| | | | | |
| Movements in trade and other receivables | 6 | -6,460 | | -4,233 |
| Movements in inventories | 5 | -3,191 | | -4,669 |
| Movements in taxation and social security contributions | | -313 | | -6 |
| Movements in trade and other payables | | 9,287 | | 1,889 |
| Movements in employee benefits | 11 | 54 | | 190 |
| Movements in provisions | 12 | -3,028 | | -2,551 |
| | | | -3,651 | -9,380 |
| | | | | |
| Interest paid | | -279 | | -316 |
| Interest received | | 86 | | 71 |
| Income tax paid | | -2,131 | | -2,640 |
| | | | -2,324 | -2,885 |
| | | | | |
| Cash flow from operating activities of continued operations | | | 11,953 | 7,614 |
| Cash flow from operating activities of discontinued operations | | | 1,336 | 1,630 |
| | | | | |
| **Cash flow from operating activities** | | | 13,289 | 9,244 |
| | | | | |
| Investments in tangible fixed assets | | -7,793 | | -6,520 |
| Investments in intangible fixed assets | | -70 | | 10 |
| Proceeds from sale of tangible fixed assets | | 1,447 | | 332 |
| Dividend received from associate | | 272 | | 449 |
| | | | | |
| Cash flow from investing activities of continued operations | | -6,144 | | -5,729 |
| Cash flow from investing activities of discontinued operations | | 25,167 | | -323 |
| | | | | |
| **Cash flow from investing activities** | | | 19,023 | -6,052 |

*Consolidated statement of cash flows*
*(€ x 1,000)*

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Repayments on long-term borrowings and derivatives | 9,10,25 | -836 | | -89 |
| Repayments on loans receivable | | - | | 63 |
| Dividend paid to shareholders of Nedap N.V. | | -9,370 | | -8,567 |
| Acquired minority interest | | - | | -96 |
| Sale of own shares | | 841 | | 421 |
| Acquisition of own shares | | -14,130 | | - |
| Cash flow from financing activities of continued operations | | -23,495 | | -8,268 |
| Cash flow from financing activities of discontinued operations | 25 | 123 | | -1,040 |
| **Cash flow from financing activities** | | | -23,372 | -9,308 |
| **Movements in cash and cash equivalents and bank overdrafts** | | | 8,940 | -6,116 |
| Cash and cash equivalents and bank overdrafts at 1 January | | | -8,681 | -2,487 |
| Exchange differences for cash and cash equivalents and bank overdrafts | | | -88 | -78 |
| **Cash and cash equivalents and bank overdrafts at 31 December** | | | 171 | -8,681 |
| Cash and cash equivalents | | | 1,840 | 2,329 |
| Bank overdrafts | | | -1,669 | -11,010 |
| | | | 171 | -8,681 |

*Consolidated statement of changes in equity*

*(€ x 1,000)*

| | share capital | statutory reserves | reserves | profit attributable to share-holders | shareholders' equity attributable to share-holders | minority interest | total shareholders' equity |
|---|---|---|---|---|---|---|---|
| Balance as at 1/1/2016 | 669 | 4,187 | 43,357 | 4,671 | 52,884 | 96 | 52,980 |
| Realised result for financial year | - | - | - | 10,779 | 10,779 | - | 10,779 |
| Unrealised result for financial year | - | -62 | - | - | -62 | - | -62 |
| Result for financial year | - | -62 | - | 10,779 | 10,717 | - | 10,717 |
| Dividend | - | - | -3,896 | -4,671 | -8,567 | - | -8,567 |
| Appropriation of profit for previous financial year | - | -1,767 | 1,767 | - | - | - | - |
| Share-based payments | - | - | 396 | - | 396 | - | 396 |
| Acquired minority interest | - | - | - | - | - | -96 | -96 |
| Movement in own shares | - | - | 421 | - | 421 | - | 421 |
| Balance as at 31/12/2016 | 669 | 2,358 | 42,045 | 10,779 | 55,851 | - | 55,851 |
| Realised result for financial year | - | - | - | 28,035 | 28,035 | - | 28,035 |
| Unrealised result for financial year | - | -87 | - | - | -87 | - | -87 |
| Result for financial year | - | -87 | - | 28,035 | 27,948 | - | 27,948 |
| Dividend | - | - | - | -9,370 | -9,370 | - | -9,370 |
| Appropriation of profit for previous financial year | - | -1,008 | 2,417 | -1,409 | - | - | - |
| Movement in share-based payments | - | - | 822 | - | 822 | - | 822 |
| Movement in own shares | - | - | -13,289 | - | -13,289 | - | -13,289 |
| Balance as at 31/12/2017 | 669 | 1,263 | 31,995 | 28,035 | 61,962 | - | 61,962 |

| Statutory reserves can be broken down as follows: | **2017** | 2016 |
|---|---|---|
| Capitalised development costs | **1,519** | 2,221 |
| Profit from participations not freely distributable | **12** | 318 |
| Exchange differences | **-268** | -181 |
| Total | **1,263** | 2,358 |

| Reserve on share-based payments: | **2017** | 2016 |
|---|---|---|
| Bonus shares | **323** | 336 |
| 10% purchase discount | **142** | 60 |
| NAPP reserve | **753** | - |
| Total | **1,218** | 396 |

Bonus depositary receipts are recognised at the closing price on the last day of trading of the year (€44.51), less the expected dividend yield during the remaining locked-up period during which the depositary receipts cannot be sold.

Dividend of €1.40 per share was paid out to shareholders.

## General

N.V. Nederlandsche Apparatenfabriek "Nedap" is a public limited company under Dutch law, having its registered office at Parallelweg 2, 7141 DC in Groenlo, the Netherlands, registered in the Chamber of Commerce's trade register under number 08013836.
The company's 2017 consolidated financial statements cover the company and its subsidiaries, who together form the group, referred to below as Nedap.
The financial year coincides with the calendar year.
Nedap develops and supplies smart technological solutions for socially relevant themes, including sufficient food, clean drinking water, security and healthcare.
On 15 February 2018, the financial statements were approved for publication by both the Supervisory Board and the Board of Directors. The financial statements will be submitted to the general meeting of shareholders for adoption on 5 April 2018.

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

The basis for preparation of the financial statements is historical cost, unless specified otherwise below.

### *Rounding*

Unless specified otherwise, all amounts recognised in the financial statements and explanatory notes are rounded to the nearest thousand currency units.

### *Estimates*

IFRS-compliant reporting requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported value of assets, liabilities, income and costs. The estimates and underlying assumptions are based on past experience and various other factors which are considered fair under the circumstances. The results constitute the basis for judgements on the book value of assets and liabilities that cannot be simply derived from other sources. The actual results may differ from these estimates. The estimates and underlying assumptions are under constant review. Revisions to estimates are recognised in the period in which the estimate is revised if the revision only has consequences for that period, or in the revision period and future periods if the revision has consequences for both the reporting period and future periods. The most critical estimates relate primarily to measurement of tangible and intangible fixed assets, employee benefits and provisions.
In the context of the reorganisation of the supply chain, estimates were also made in relation to the measurement of inventories.

### *Changes to the presentation of comparative figures*

From the date on which all criteria of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* are met, discontinued operations are deconsolidated on the balance sheet to assets and debts of discontinued operations. In the statement of profit or loss and the statement of cash flows, reporting periods prior to the date on which all IFRS 5 criteria are met are also deconsolidated.

### *Consolidation*

The financial data of N.V. Nederlandsche Apparatenfabriek "Nedap" and of the subsidiaries listed below (jointly referred to as Nedap), over which it has a controlling influence, have been consolidated in full. Stichting Medewerkerparticipatie Nedap has also been included in the consolidation.
The 49.8% participation in Nedap France S.A.S., which is based in Eragny sur Oise, France, has not been included in the consolidated financial statements. Nedap has normal trade transactions with this participation and these transactions are

| | | |
|---|---|---|
| Nedap Beveiligingstechniek B.V., Groenekan, Netherlands | 100% | participation |
| Inventi B.V., Neede, Netherlands | 100% | participation |
| Nedap Deutschland GmbH, Meerbusch, Germany | 100% | participation |
| Nedap Great Britain Ltd., Theale, Reading, UK | 100% | participation |
| Nedap Iberia S.A., Alpedrete (Madrid), Spain | 100% | participation |
| Nedap Asia Ltd., Hong Kong | 100% | participation |
| Nedap China Ltd., Shanghai, China | 100% | participation of Nedap Asia Ltd. |
| Nedap FZE, Dubai, United Arab Emirates | 100% | participation |
| Nedap Inc., Wakefield, USA | 100% | participation |

performed on a commercial basis with terms that are similar to those for transactions with third parties. Balance sheet positions and transactions between consolidated companies and unrealised profit/loss on such transactions are eliminated when preparing the consolidated financial statements. The unrealised profit/loss of consolidated companies on transactions with non-consolidated companies is eliminated in proportion to Nedap's interest in that participation.
Nsecure B.V. was sold on 21 November 2017 and deconsolidated with retroactive effect as discontinued operations in the consolidated statement of profit or loss and the consolidated statement of cash flows.

### *Foreign currency*

The financial statements are presented in euros, which is Nedap's functional and presentational currency. Profits/losses and financial positions of consolidated companies in a functional currency other than the euro are converted to euros as follows: assets and liabilities are converted at the exchange rate as at the balance sheet date, and income and costs are converted at the average exchange rate. Exchange differences on participations are added or charged to the statutory reserves via the other comprehensive income.
Transactions in foreign currencies are converted into the functional currency at the exchange rate on the transaction date. Profits and losses arising as a result of the settlement of such transactions are recognised in the statement of profit or loss.

## Financial instruments

Regular purchases and sales of financial assets are entered on the transaction date. Financial assets are no longer recognised on the balance sheet when rights to receive cash flows from the financial assets have either expired or been transferred, and the group has transferred virtually all risks and benefits of ownership.

### *Non-derivative financial instruments*

Non-derivative financial instruments are loans receivable, trade and other receivables, cash and cash equivalents, borrowings and trade and other payables, excluding projects in progress. On initial recognition, non-derivative financial instruments are recognised at fair value, with directly attributable transaction costs included on initial recognition.
After initial recognition, non-derivative financial instruments (excluding cash and cash equivalents) are recognised at amortised cost less impairment losses. Profits or losses ensuing from changes in the measurement of these instruments are recognised in the statement of profit or loss under other operating costs.

## Intangible fixed assets

### *Research*

Costs relating to research activities are recognised in the statement of profit or loss at the time of occurring.

*Development*

Any development costs for which future economic benefits can reliably be estimated, that can be reliably measured and that were not incurred for the maintenance of an existing product or adaptation to suit new market circumstances are capitalised. Such costs are of a project-based nature.
All other development costs are recognised in the statement of profit or loss at the time of occurring. The recognised value of capitalised development costs consists of external and directly attributable internal costs and overheads.
Capitalised projects are technically feasible and Nedap intends to implement them. Nedap has access to (or is able to obtain) sufficient technical, financial and other resources to finalise and market the products it has developed.
To a great extent, the capitalised projects are for lighting and detection systems.

*Subsidies*

Government subsidies are recognised at fair value when there is reasonable certainty that the subsidy will be received and that the group will be able to meet all associated conditions.

*Amortisation of intangible fixed assets*

Capitalised development costs are amortised on a straight-line basis. Amortisation rates depend on product types and range from 12.5% to 25%.

*Other*

Software & licenses acquired are recognised at historical cost less accumulated amortisation. Amortisation is applied on a straight-line basis over the estimated economic life. The amortisation rate is 20%.

*Tangible fixed assets*

Leases on tangible fixed assets that expose the group to virtually all risks associated with ownership of these assets, while also giving the group virtually all the benefits of ownership, are classified as financial leases. On the lease commencement date, financial leases are capitalised at the fair value of the property leased or, if this amount is lower, the present value of the minimum lease payments.
The associated lease liabilities are recognised under other current and non-current liabilities after deduction of financing costs. Every lease payment is allocated between the liability and the financing costs. The financing costs are charged to the profit or loss for the lease period to generate a constant periodical interest rate for the remaining balance of the liability for each period. Tangible fixed assets acquired under financial leases are depreciated over the economic life of the asset or, if there is no reasonable level of certainty that the group will gain ownership when the lease period expires, over the shorter economic life of the asset and the lease term. Costs incurred for operating lease contracts are recognised in the statement of profit or loss in the period to which they relate.
Tangible fixed assets purchased or manufactured are recognised at historical cost less accumulated depreciation and impairment. The recognised value of assets manufactured in-house consists of external and directly attributable internal costs and overheads.
Tangible fixed assets are classified as 'available-for-sale assets' provided assets are indeed available for immediate sales and are highly likely to be sold. Tangible fixed assets available for sale are recognised at book value or lower fair value, less selling costs. Available-for-sale tangible fixed assets are not depreciated.

*Depreciation of tangible fixed assets*

Depreciation of tangible fixed assets is applied on a straight-line basis over the estimated economic life. Land is not depreciated.

The annual depreciation rates are:

| | |
|---|---|
| Company buildings | 3% to 10% |
| Machinery | 13% or 18% |
| Installations | 7% or 10% |
| Other fixed assets | 20% |

Depreciation rates are evaluated annually and adjusted if necessary.

### *Financial fixed assets*

Associates in which Nedap can exercise significant influence on commercial and financial policy but does not hold a controlling influence are recognised using the equity method. The equity method is determined based on the accounting policies underlying the consolidated financial statements.

### *Deferred tax assets*

Deferred tax assets relate to losses brought forward and temporary differences between the book value of assets and liabilities and the tax book values of these items. Deferred tax assets are calculated, for each fiscal entity, at the tax rates that are expected to apply when they are realised.
Deferred tax assets are only recognised if it is likely that these can be realised.

### *Inventories*

Inventories are recognised at either cost or net realisable value, whichever is lower. Cost is determined based on the First-In-First-Out method (FIFO). Net realisable value is the estimated selling price less costs to be incurred. The cost of products in progress and finished goods includes direct manufacturing costs, plus a mark-up for indirect manufacturing and purchasing costs.

### Cash and cash equivalents

Cash and cash equivalents may include deposits held with banks that are available on demand, other short-term investments that are very liquid and have an original term of three months or shorter, and which can be converted immediately to specific cash amounts, while also involving negligible exposure to the risk of changes in value, as well as bank overdrafts or current-account receivables. Cash balances and current-account receivables are recognised under cash and cash equivalents in other receivables, while bank overdrafts are recognised as bank overdrafts under current liabilities on the balance sheet.

### *Projects for third parties in progress*

Projects for third parties in progress concerns the gross amount that is yet to be charged and is expected to be collected for work performed up to the balance sheet date. This item is recognised at cost incurred, plus profit recognised up to that point and less invoiced instalments prorated according to the progress of the project and recognised losses. On the balance sheet, projects for third parties in progress where the sum of incurred costs and recognised profits exceeds the sum of invoiced instalments and recognised losses are recognised under trade and other receivables. Projects in progress where the sum of invoiced instalments and recognised losses exceeds that of incurred costs and recognised profits are presented as trade liabilities and other payables on the balance sheet. Prepayments by customers are also presented as trade liabilities and other payables.

### *Impairment of assets*

The book value of assets is reviewed mid-year and at year-end for any indication of impairment. Impairment of assets are impairments that do not ensue from regular business operations. If indications of impairment are found, impairment is recognised based on realisable value, which is either the direct realisable value or value in use, whichever is the highest. Impairment is recognised in the statement of profit or loss. If information or circumstances arise in a subsequent period that show that the impairment was overestimated, the impairment is revoked.

The book value of the asset is raised to the revised realisable value, albeit never beyond the book value that would have been recognised if impairment had not taken place. The increase is incorporated directly into the statement of profit or loss. Assets both in use and not yet in use are involved in determining impairment.

*Statutory reserves*

These non-distributable reserves are formed for the amount of development costs capitalised on the balance sheet, for exchange differences for participations and for the share in participations which cannot be freely obtained. Statutory reserves have also been included in the consolidated statement of changes in shareholders' equity to ensure reconciliation with the shareholders' equity as recognised in the company financial statements.

*Minority interests*

Minority interests are recognised at the share that the minority shareholders hold in the shareholders' equity of the consolidated company concerned.

*Share-based remuneration*

Nedap currently has two plans that give employees the option to invest in Nedap depositary receipts through the Stichting Medewerkerparticipatie Nedap (subsequently referred to as 'the Stichting'): the Employee participation plan (the 'Plan') and the Nedap Additional Participation Plan (the 'NAPP'). The value of these plans is recognised as cost in the statement of profit or loss, while the amount charged to the profit/loss is recognised in the shareholders' equity. The total amount to recognise as cost is the fair value of the depositary receipts awarded without factoring in the performance-related conditions. Over the period that such performance is delivered, the total amount to recognise as cost is charged to the profit/loss on a straight-line basis.
Since 2010, the Plan has offered employees the option to use part or all of their annual share in the profits to purchase Nedap depositary receipts. Besides the option to invest the amount of their share in the profits in the Stichting in exchange for depositary receipts, Nedap's Board of Directors and business unit managers are required to invest at least 50% of their variable remuneration in Nedap depositary receipts. As a result, at least 50% of variable remuneration is of a long-term nature.
After purchase, depositary receipts will be the unconditional property of the holder and they cannot be sold for a period of 4 years. The holder of the depositary receipt is immediately entitled to the full dividend per share. Besides the purchase discount, a bonus depositary receipt is awarded for every 4 depository receipt after 4 years, provided certain conditions are met. Bonus depositary receipts entitle the holder to dividend from the moment they are awarded.
The value of the bonus depositary receipts has been derived from the Nedap share price on the Euronext Amsterdam stock exchange. This value is corrected for the dividends expected during the period of 4 years during which the depositary receipts are locked up.

*Defined-contribution pension scheme*

Since 1 January 2015, Nedap has had a defined-contribution pension scheme for its employees. Liabilities are recognised as a cost in the statement of profit or loss in the period to which they relate. Administration of the scheme has been commissioned to a Premium Pension Institution (PPI). Nedap has no other liabilities relating to the extent of the target pension or indexations other than the contributions paid.

*Deferred tax liabilities*

Deferred tax liabilities arise from temporary differences between the book value of assets and liabilities and the tax book values of these items. Deferred tax liabilities are calculated, for each fiscal entity, at the tax rates that are expected to apply when they are settled.

*Provisions*

The guarantee provision is for claims made by customers under agreed guarantees. The term during which a customer can exercise this right varies between products. The measurement is determined based on estimated costs that are expected to ensue from current warranty obligations as at the balance sheet date. Aside from that, the provisions contain specific guarantee commitments.

A restructuring provision is recognised as soon as Nedap has approved a detailed and formal restructuring plan, and a start has been made on the restructuring or when it has been announced publicly. A provision is not made for future operating losses.

*Anniversary benefits provision*

Nedap's liability under other long-term employee benefits, the 25-year and 40-year employment anniversary, concerns the amount of entitlements accrued by employees in exchange for their services over the reporting period and preceding periods. These entitlements are discounted to determine the present value. Revaluations are incorporated into the profit/loss for the period in which they occur.

*Revenue*

Revenue encompasses the fair value of receivables ensuing from the sale of goods or provision of services to third parties as part of Nedap's regular business operations, excluding taxation levied on revenue.

Revenue from the sale of goods is recognised in the profit/loss when the significant risks and rewards of ownership of the goods have been transferred to the buyer.

Revenue from goods installed by Nedap itself is recognised in the profit/loss in proportion to the stage of completion of the installation on the balance sheet date. The stage of completion is determined from the proportion of costs incurred to the total expected costs.

Revenue from services is recognised for each service or on a straight-line basis over the term of the contract. If service contracts are invoiced in advance, these amounts are recognised on the balance sheet as amounts received in advance under 'trade and other payables'.

*Financing income and costs*

Financing income and costs are interest and similar costs received from and paid to third parties and value movements on interest rate swaps. Financing income and costs are recognised in the statement of profit or loss using the effective interest method.

*Taxation*

Taxation on profit for the financial year comprises taxes payable and receivable for the reporting period and the movement in deferred taxation. Taxation on profit is recognised in the statement of profit or loss, unless it relates to items recognised directly in shareholders' equity, in which case the related taxation is also recognised in shareholders' equity.

Taxation payable or offsettable over the reporting period consists of income tax on the taxable profit/loss, as calculated based on tax rates set by law, and corrections to taxation paid for previous financial years.

*Statement of cash flows*

The statement of cash flows is prepared using the indirect method. Cash flows in foreign currencies are converted at the exchange rates on the date of the cash flow or at average rates. Interest paid and received is included in cash flow from operating activities, while dividend paid to and received from shareholders is incorporated into cash flow from financing activities.

*Credit risk*

Credit risk is the risk of financial losses for Nedap due to non-compliance with payment obligations on the part of a customer or counterparty. Credit risks arise in particular on receivables from customers. Nedap reduces this risk by insuring trade receivables where possible. The risk of non-payment then lies largely with the credit insurance company. If possible, security is requested from trade debtors who cannot be insured. If necessary, a provision for doubtful debts is formed.

### *Liquidity risk*

Liquidity risk is the risk that Nedap cannot meet its financial obligations when they become due. Nedap reduces this risk by maintaining sufficient access to capital. In this respect, an ample credit facility running through to May 2023 has been taken out, whereby the total facilities of €46.0 million (including temporary facilities of €5.0 million in the period from April to September) are not subject to covenants. Nedap uses a target net debt/EBITDA of a maximum of 1.5, whereby deviations from this target figure are possible only if necessary for strategic reasons. Note 26 goes into liquidity risk in greater detail.

### *Currency risk*

Nedap reduces the currency risk by restricting the size of transactions in foreign currencies and, if necessary, hedging these risks. For the most important foreign currency - the US Dollar - an internal hedging system is used on a global scale, which means that payments in US Dollars are made using US Dollars available elsewhere in the company. Net US Dollar transactions, minus costs, did not exceed 2% of revenue in 2017 (4% in 2016). Net transactions in other foreign currencies were no more than 2% of revenue each. A change of 10% in the US Dollar exchange rate would affect the profit for the financial year by €0.4 million.

### *Interest rate risk*

A change of 100 basis points in interest rates would affect the profit for the financial year by €0.3 million (€0.3 million in 2016).

### *Market risk*

Nedap reduces its market risk by operating in different geographical markets and areas of application with different products.

### Capital management

Nedap strives for a conservative financing structure reflected by a solvency ratio of at least 45% and net debt/EBITDA of a maximum of 1.5. Temporary deviation from this target is possible for strategic reasons. In 2017, these ratios were 55% and 0.6 respectively (48% and 1.0 in 2016).

### *Segmentation*

Nedap's long-term policy focuses on creating solutions with sustainable meaning for customers, employees and shareholders. The company wishes to achieve this through growth in revenue and profits, based on the culture of expertise, creativity and entrepreneurship that it has built up over the past decades.

Achieving this objective not only requires know-how of technology and market conditions, but also an increasing degree of knowledge of the customer's business processes and applications that our solution is ultimately used in. The focus of activities on a customer or group of customers (business unit) is a significant condition for creating a genuinely distinctive and sustainable solution for our customers and their users, and thus also having sustainable meaning for our employees and shareholders.

The technologies used in such solutions are closely related, so the business units often draw on each other's technological know-how, products, systems, production resources and market and user experience. This applies for all of Nedap's activities and business units. This exchange of know-how and resources, without financial settlement, is an ongoing and informal process and, therefore, a vital part of the entrepreneurial culture.

IFRS 8 requires the financial statements to present segment information that is in accordance with the internal information used by the directors to assess performance and allocate resources. Nedap

N.V.'s Board of Directors assesses the company's overall and each business unit's profit/loss and the performance of the business units mainly on the basis of its own observations, day-to-day communications with the business units and development and market prospects. Based on this, decisions are made, staff are allocated and resources are made available. Nedap does not have separate segments as referred to in IFRS 8. The geographical distribution of tangible fixed assets, intangible fixed assets and revenue, and the breakdown of revenue into categories are disclosed in the financial statements as required by IFRS 8.

*As yet unimplemented standards and interpretations*

Several new standards, amendments to standards and interpretations did not come into force until 1 January 2018 and have therefore not been applied in these consolidated financial statements. The standards relevant to Nedap are explained below. Like in previous years, Nedap does not adopt standards early.

Nedap has opted for what is known as the modified retrospective approach, which means that comparative figures from previous years will not be amended.

IFRS 9, published in July 2014, replaces the existing guideline in IAS 39 Financial Instruments: Recognition and Measurement. One of the requirements of the new impairment model is that impairment losses must be recognised based on expected credit losses on the portfolio instead of based only on individually identified actual or potential credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured in the total result, contract assets under IFRS 15 Revenue from contracts with customers, lease receivables, loan commitments and certain financial warranty contracts.

Based on assessments conducted so far, the group does not expect any changes in the measurement of financial assets, which in Nedap's case concern mainly trade receivables.

The new standard also introduces extensive disclosure requirements and changes in the presentation, which are indeed expected to alter the nature and scope of the group's explanatory notes to its financial instruments to some extent in the year in which the new standard is applied.

IFRS 15 provides a comprehensive framework for determining whether, when and how much revenue is to be recognised. This standard is intended intended to replace the existing stipulations for the recognition of revenue, including IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 has come into force for financial years beginning on or after 1 January 2018. The aspects of the new standard that are relevant to Nedap concern mainly volume discounts, service contracts and upgrades for software supplied. Nedap has extensively reviewed its contracts and revenue streams in the 2017 financial year. Nedap does not foresee the application of the IFRS 15 standard having any material impact on its financial statements.

IFRS 16 was published in January 2016. As a result of application of this standard, virtually all lease contracts are recognised on the balance sheet, as the standard all but does away with the distinction in the accounting of operating leases and financial leases. Under the new standard, an asset (i.e. the right to use the leased item) and a financial obligation to pay a lease amount are recognised. The only exceptions are contracts with a term of under 12 months or contracts that are linked to assets that are of minor value. The standard relates mainly to the administrative processing of operating leases. Nedap only has a very small number of such leases, due to the company's policy of purchasing assets rather than leasing them. The impact on the statement of profit or loss will therefore be small. However, the group has not yet assessed which other adjustments, if any, are needed, such as on account of the change to the definition of the lease period and the different treatment of variable lease payments and renewal and termination options. It is therefore not yet possible to estimate the amount to recognise for user rights and lease liabilities upon approval of the new standard, and how this may impact on the group's profits and on future classification of cash flows.

## 1. Intangible fixed assets

| | capitalised development costs | software & licences | total intangible fixed assets |
|---|---|---|---|
| year-end 2015: | | | |
| purchase price | 15,100 | 650 | 15,750 |
| amortisation incl. impairments | -11,073 | -12 | -11,085 |
| **book value** | 4,027 | 638 | 4,665 |
| movements in 2016: | | | |
| investment | 56 | 205 | 261 |
| completed assets in progress | -11 | 11 | - |
| disposal (on balance) | -130 | - | -130 |
| amortisation | -1,415 | -134 | -1,549 |
| impairments | - | - | - |
| **net movements** | -1,500 | 82 | -1,418 |
| year-end 2016: | | | |
| purchase price | 12,758 | 866 | 13,624 |
| amortisation incl. impairments | -10,231 | -146 | -10,377 |
| **book value** | 2,527 | 720 | 3,247 |
| movements in 2017: | | | |
| investment | - | 70 | 70 |
| completed assets in progress | - | - | - |
| disposal (on balance) | -306 | -567 | -873 |
| amortisation | -702 | -53 | -755 |
| impairments | - | - | - |
| **net movements** | -1,008 | -550 | -1,558 |
| year-end 2017: | | | |
| purchase price | 4,345 | 246 | 4,591 |
| amortisation incl. impairments | -2,826 | -76 | -2,902 |
| book value | 1,519 | 170 | 1,689 |

## 2. Tangible fixed assets

| | company buildings and premises | machinery and installations | other * fixed equipment | in progress and pre-payments | total tangible fixed assets |
|---|---|---|---|---|---|
| year-end 2015: | | | | | |
| purchase price | 44,893 | 33,442 | 61,684 | 261 | 140,280 |
| depreciation incl. impairments | -22,005 | -26,526 | -49,319 | - | -97,850 |
| **book value** | 22,888 | 6,916 | 12,365 | 261 | 42,430 |
| movements in 2016: | | | | | |
| investment | 1,100 | 587 | 2,796 | 1,938 | 6,421 |
| completed assets in progress | - | - | 261 | -261 | - |
| disposal (on balance) | - | - | -319 | - | -319 |
| depreciation | -1,709 | -1,719 | -4,412 | - | -7,840 |
| impairments | - | - | - | - | - |
| **net movements** | -609 | -1,132 | -1,674 | 1,677 | -1,738 |
| year-end 2016: | | | | | |
| purchase price | 45,958 | 33,808 | 61,389 | 1,938 | 143,093 |
| depreciation incl. impairments | -23,679 | -28,024 | -50,698 | - | -102,401 |
| **book value** | 22,279 | 5,784 | 10,691 | 1,938 | 40,692 |
| movements in 2017: | | | | | |
| investment | 544 | 834 | 3,664 | 2,751 | 7,793 |
| completed assets in progress | - | - | 1,938 | -1,938 | - |
| disposal (on balance) | -3,745 | -851 | -1,009 | - | -5,605 |
| depreciation | -1,489 | -1,402 | -3,972 | - | -6,863 |
| impairments | -101 | -16 | -147 | - | -264 |
| **net movements** | -4,791 | -1,435 | 474 | 813 | -4,939 |
| year-end 2017: | | | | | |
| purchase price | 37,488 | 20,218 | 27,415 | 2,751 | 87,872 |
| depreciation incl. impairments | -20,000 | -15,869 | -16,250 | - | -52,119 |
| **book value** | 17,488 | 4,349 | 11,165 | 2,751 | 35,753 |

* moulds, dies, measuring and testing equipment, furniture and fittings, computer systems and vehicles.
Currency translation differences are ignored, given their small significance.
Tangible fixed assets are insured at new-for-old value.
A right of mortgage on immovable property amounting to €16.7 million (€17.4 million in 2016) has been granted as security for the debts owed.
Liabilities entered into at the end of the financial year were €0.2 million (€0.8 million in 2016).
Impairment is explained under 'Impairment of assets'.

Geographical information on the book value of tangible fixed assets and intangible fixed assets:

| | 2017 | 2016 |
|---|---|---|
| Netherlands | **34,107** | 40,670 |
| Germany | **1,235** | 1,237 |
| Spain | **1,316** | 1,471 |
| other Europe | **376** | 376 |
| other countries | **408** | 185 |
| total | **37,442** | 43,939 |

### 3. Financial fixed assets
This is Nedap France S.A.S., Eragny-sur-Oise, France.

| | 2017 | 2016 |
|---|---|---|
| value as at 1 January | **3,849** | 3,681 |
| profit after taxation | **877** | 617 |
| dividend received | **-249** | -497 |
| other changes | **-23** | 48 |
| value at 31 December | **4,454** | 3,849 |
| Key figures of the associate, on 100% basis: | | |
| revenue | **25,933** | 23,641 |
| costs | **-24,171** | -22,404 |
| profit/loss after taxation | **1,762** | 1,237 |
| total assets at 31 December | **17,514** | 15,716 |
| total liabilities at 31 December | **8,571** | 7,987 |
| Transactions with associate: | | |
| sales of goods and services to associate | **8,155** | 6,938 |

As at 31 December 2017, €4,064 of the assets is of a long-term nature (€3,624 in 2016).
As at 31 December 2017, €2,215 of the liabilities is of a long-term nature (€2,420 in 2016).

### 4. Deferred tax assets

| | 2017 | 2016 |
|---|---|---|
| balance at 1 January | **272** | 215 |
| withdrawals | **- 54** | -62 |
| additions | **62** | 119 |
| balance at 31 December | **280** | 272 |

These receivables relate to the losses brought forward.
Certain losses can be carried forward indefinitely and others for 20 years.
At 31 December 2017, there were no temporary differences, uncompensated tax losses or unused tax credits available for which no deferred tax assets had been recognised, except for unused tax credits in Spain and the United States (whereby the latter related to State Tax in several states). Given the uncertainty regarding future profits in these states, deferred tax assets of €9 (€9 in 2016) has been recognised at nil. The tax asset in Spain that has not been recognised amounts to €217.

## 5. Inventories

| | 2017 | 2016 |
|---|---|---|
| raw materials and components | **7,844** | 7,369 |
| products in progress | **1,552** | 1,368 |
| finished goods | **22,081** | 20,660 |
| total | **31,477** | 29,397 |

## 6. Trade and other receivables

| | 2017 | 2016 |
|---|---|---|
| trade receivables | **30,697** | 29,762 |
| amounts owed by associate | **1,263** | 1,360 |
| other receivables and prepayments and accrued income | **5,300** | 4,891 |
| total | **37,260** | 36,013 |

Of the trade and other receivables, €0.3 million (€0.3 million in 2016) has a term of over 1 year.
An amount of € - (€1,917 in 2016) relates to receivables from projects
for third parties in progress.

Movements in provision for trade receivables that are deemed uncollectible:

| | 2017 | 2016 |
|---|---|---|
| balance at 1 January | **34** | 596 |
| withdrawals | **-34** | -573 |
| additions | **117** | 11 |
| balance at 31 December | **117** | 34 |

In 2017, the average credit term for trade accounts receivable was: 7.1 weeks (7.4 weeks in 2016).

Nedap has insured the credit risk in its trade receivables wherever possible, whereby over 80% is covered with a pay-out of 90% (90% in 2016).
For the risk assessment, please refer to details in the 'Nedap and risk management' section
in the Corporate Governance chapter.

## 7. Cash and cash equivalents

| | 2017 | 2016 |
|---|---|---|
| cash | **4** | 5 |
| banks | **1,836** | 2,324 |
| total | **1,840** | 2,329 |

Cash and cash equivalents are available on demand.

### 8. Shareholders' equity

The authorised share capital consists of 15,600,000 ordinary shares and 15,600,000 preference shares, all with a nominal value of €0.10 each. 6,692,920 ordinary shares have been issued and paid up.

The average number of shares in issue in 2017 was 6,651,543 (6,692,920 in 2016).
At year-end 2017, 6,383,546 shares were in issue (6,692,920 in 2016).

At year-end 2017, the company purchased 309,374 (5,575 in 2016) of its own shares that are due to be transferred to employees under the employee participation plan.

### 9. Borrowings

| Type of borrowing | Nominal interest rate | Maturity date | 2017 | 2016 |
|---|---|---|---|---|
| Standby Roll-Over | Euribor + 1.6% | 2023 | **14,000** | 14,000 |
| Bank loan | Euribor + 0.5% | 2021 | **-** | 630 |
| Annuity loan | Euribor + 0.8% | 2022 | **367** | 450 |
| balance at 31 December | | | **14,367** | 15,080 |
| repayment liabilities < 1 year | | | **85** | 127 |
| repayment liabilities > 1 year and < 5 years | | | **282** | 932 |
| repayment liabilities > 5 years | | | **14,000** | 14,021 |

The fair value of the borrowings is not materially different from their amortised cost.

The financing agreement with the bank for the Standby roll-over loan
will expire on 1 May 2023. Security has been provided in the form of a right of mortgage (€16.3 million) and a pledge of fixtures and fittings and trade receivables. The agreement does not contain any covenants.

The annuity loan was used to pay for the building in Alpedrete (Spain); a right of mortgage on immovable property has been
granted to the amount of the remaining loan.

### 10. Derivatives

| | 2017 | 2016 |
|---|---|---|
| balance at 1 January | **123** | 173 |
| change in value | **-123** | -50 |
| balance at 31 December | **-** | 123 |

## 11. Employee benefits

| | 2017 | 2016 |
|---|---|---|
| Anniversary benefits provision: | | |
| balance at 1 January | **788** | 598 |
| withdrawals | **-86** | -106 |
| additions | **140** | 296 |
| balance at 31 December | **842** | 788 |

Measurement of the anniversary benefits provision is based on the following factors:

| | | |
|---|---|---|
| future salary increase | **2.0%** | 1.5% |
| present value factor | **1.4%** | 1.6% |

Estimated likelihood to stay is related to employee age and the number of years of employment at Nedap.

## 12. Provisions

| | 2017 | 2016 |
|---|---|---|
| Guarantee provision: | | |
| balance at 1 January | **2,469** | 2,071 |
| withdrawals | **-1,694** | -1,302 |
| additions | **1,835** | 1,700 |
| balance at 31 December | **2,610** | 2,469 |
| Restructuring provision: | | |
| balance at 1 January | **3,349** | 6,298 |
| withdrawals | **-2,605** | -2,989 |
| release | **-744** | |
| additions | **-** | 40 |
| balance at 31 December | **-** | 3,349 |
| total provisions | **2,610** | 5,818 |

The part of the provisions with a term of under 1 year (€1,491; €4,824 in 2016) is recognised under short-term liabilities. Given the short-term nature of the provisions, they were not converted into cash.

## 13. Deferred tax liabilities

| | 2017 | 2016 |
|---|---|---|
| tangible fixed assets | **145** | 237 |
| intangible fixed assets | **380** | 555 |
| inventories | **218** | 207 |
| receivables | **-260** | -257 |
| employee participation costs | **-** | -99 |
| provisions | **-12** | -24 |
| balance at 31 December | **471** | 619 |
| Movements in deferred tax liabilities: | | |
| balance at 1 January | **619** | 979 |
| added to the profit/loss (net) | **-148** | -360 |
| balance at 31 December | **471** | 619 |

The deferred tax liabilities have a predominantly long-term nature.

## 14. Bank overdrafts

The maximum overdraft under the facility is €26.7 million (€27.7 million in 2016).
Every year, over the period from April to September inclusive, an additional facility of €5 million will be available.

## 15. Trade and other payables

| | 2017 | 2016 |
|---|---|---|
| trade payables | **13,106** | 9,162 |
| liabilities on account of investments | **260** | 331 |
| prepayments received | **3,602** | 3,401 |
| other liabilities and accruals and deferred income | **13,010** | 11,380 |
| total | **29,978** | 24,274 |

There are no other liabilities and accruals and deferred income with a term of over 1 year (€ - million in 2016). An amount of €2,340 (€1,698 in 2016) of other liabilities and accruals and deferred income (€1,698 in 2016) relates to severance obligations following the supply chain reorganisation.

## Other information

### Off-balance sheet rights and commitments

Long-term financial obligations of group companies:
(in € x million)

| | < 1year | > 1year and < 5years | > 5years and < 10years |
|---|---|---|---|
| 2017: | | | |
| building rental | **0.5** | 0.6 | - |
| operating leases for vehicles | **0.1** | 0.2 | - |
| operating leases for ICT | **-** | - | - |
| 2016: | | | |
| building rental | **0.9** | 0.5 | - |
| operating leases for vehicles | **0.7** | 0.9 | - |
| operating leases for ICT | **0.3** | 0.7 | - |

Guarantees issued by group companies in relation to building rental were € - million (€0.1 million in 2016) and other €0.1 million (€0.2 million in 2016).

Nedap leases various business premises. Leases usually have a term of 5 years with a renewal option. Rents are revised annually. Two of the group companies lease their fleet of vehicles.

In the financial year, €1.4 million (€1.4 million in 2016) was recognised in the statement of profit or loss under operating lease contracts.

Nedap has received claims from several parties regarding Nedap's alleged failure to meet contractual obligations. Nedap does not expect these claims to have any financial consequences for Nedap.

A plan has been put together in partnership with the provincial authorities of Gelderland regarding the clean-up of contaminated soil at Nedap's Groenlo site. Nedap does not expect any kind of material financial fallout from this.

The terms of the sale of the Nsecure subsidiary to Unica have been laid down in an agreement; known as a Share & Purchase Agreement ('SPA'). In this agreement, Nedap gives indemnifications and warranties to the buyer that are customary for this kind of transaction. Although it cannot be excluded that these indemnifications and warranties will lead to payments to the buyer in the future, Nedap does not expect at this point - based on a risk analysis - that this agreement will have material financial consequences for Nedap.

### Related parties

Parties related to Nedap are the associate Nedap France S.A.S., the Stichting Preferente Aandelen Nedap and the members of the Supervisory Board and the Board of Directors. In the financial year, an amount of €150,000 was transferred to Stichting Preferente Aandelen Nedap without expecting any returns. There were no other transactions with related parties during the financial year except as presented in the financial statements. Transactions are performed on a commercial basis.

## 16. Revenue

| | 2017 | 2016 |
|---|---|---|
| products, systems, and installations | **151,269** | 137,807 |
| services | **30,916** | 25,437 |
| total | **182,185** | 163,244 |

Services consist mainly of subscriptions and maintenance contracts for Healthcare,
Retail, Security Management and Staffing Solutions.

Geographical sales areas:

| | 2017 | 2016 |
|---|---|---|
| Netherlands | **44,548** | 39,034 |
| Germany | **29,621** | 23,479 |
| other Europe | **59,092** | 57,533 |
| North America | **25,139** | 21,423 |
| other countries | **23,785** | 21,775 |
| total | **182,185** | 163,244 |

Major customers:

No customer represents sales in excess of 10% of total revenue.

## 17. Personnel costs

| | 2017 | 2016 |
|---|---|---|
| wages and salaries | **44,764** | 40,212 |
| social security costs | **4,423** | 4,412 |
| pension costs | **3,233** | 2,455 |
| personnel restructuring costs | **-538** | -93 |
| insourced staff | **11,851** | 10,193 |
| other personnel costs | **3,481** | 2,654 |
| total | **67,214** | 59,833 |

Personnel costs include €3,465 of costs relating to the reorganisation of the
supply chain, phase-out of Energy Systems, sale of Nsecure, and reorganisation of Nedap Iberia (€290 in 2016).

A subsequent payment of €560 as part of the settlement of the pension contract
that expired at the end of 2014 had a positive effect on pension costs in 2016.

The costs of share-based remuneration, recognised in accordance with IFRS 2, amount to €1,066 (€396 in 2016) and consist in:
- a 10% purchase discount that is charged to the profit for the financial year in full
- costs of bonus depositary receipts that, factoring in the fair value of €31.63, are charged to the profit and loss account over a period of 5 years
- costs of remuneration that must be invested in depositary receipts in full (NAPP).

## Average number of employees

| | 2017 | 2016 |
|---|---|---|
| Netherlands | **565** | 561 |
| other EU | **58** | 56 |
| Asia | **32** | 32 |
| USA | **23** | 17 |
| total | **678** | 666 |

### Board of Directors remuneration

| | basic income | variable remuneration | benefits of employee participation plan | pension costs | total |
|---|---|---|---|---|---|
| 2017 | | | | | |
| R. M. Wegman | 397 | 289 | 42 | 66 | 794 |
| E. Urff | 329 | 237 | 31 | 50 | 647 |
| total | 726 | 526 | 73 | 116 | 1,441 |
| 2016 | | | | | |
| R. M. Wegman | 392 | 247 | 36 | 56 | 731 |
| E. Urff | 324 | 202 | 19 | 45 | 590 |
| total | 716 | 449 | 55 | 101 | 1,321 |

The Board of Directors has to deposit at least 50% of its variable remuneration with Stichting Medewerkerparticipatie Nedap in exchange for Nedap depositary receipts. The depositary receipts are locked up for a period of four years.
The benefits offered by the employee participation plan are the 10% purchase discount on the depositary receipts and entitlement to bonus depositary receipts (after 4 years). Since the creation of the Plan, members of the Board of Directors have invested all of their variable remuneration, less statutory deductions, in the Plan.

| (Items x 1) | depositary receipts held at year-end | bonus depositary receipts not yet awarded year-end |
|---|---|---|
| 2017 | | |
| R. M. Wegman | 24,881 | 2,829 |
| E. Urff | 7,001 | 1,750 |
| total | 31,882 | 4,579 |
| 2016 | | |
| R. M. Wegman | 20,702 | 2,640 |
| E. Urff | 4,133 | 1,033 |
| total | 24,835 | 3,673 |

Nedap has not granted the Supervisory Board any rights to acquire Nedap depositary receipts.
The company has not granted the Board of Directors or Supervisory Board members any loans or guarantees.
Further details of the remuneration policy are provided in the Corporate Governance chapter of this report.

### Supervisory Board remuneration

| | **2017** | 2016 |
|---|---|---|
| G. F. Kolff | **40** | 40 |
| J. M. L. van Engelen | **30** | 30 |
| D. W. J. Theyse | **30** | 30 |
| M. C. Westermann | **30** | 30 |
| total | **130** | 130 |

### 18. Amortisation

| | 2017 | 2016 |
|---|---|---|
| development costs | 702 | 1,347 |
| software & licences | 53 | 30 |
| total | 755 | 1,377 |

### 19. Depreciation

| | 2017 | 2016 |
|---|---|---|
| company buildings | 1,489 | 1,543 |
| machinery and installations | 1,402 | 1,645 |
| other equipment | 3,972 | 4,217 |
| total | 6,863 | 7,405 |

### 20. Impairment of assets

| | 2017 | 2016 |
|---|---|---|
| impairment of assets | 264 | 900 |

The impairment of assets relates to impairment costs of tangible fixed assets.
In 2016, impairment concerned costs relating to obsolete inventories.

### 21. Other operating costs

Other operating costs includes general, sales, accommodation, restructuring and indirect manufacturing costs. In 2017, a book profit of €0.7 million was achieved on divestments of machinery.

In 2017, an amount of €2,280 (€845 in 2016) of other operating costs was recognised for the supply chain reorganisation and the phase-out of the Energy Systems business unit.

### 22. Share in profit of associate

This is the share in the profit of Nedap France S.A.S., Eragny-sur-Oise, France.

## 23. Taxation

| | 2017 | 2016 |
|---|---|---|
| profit before taxation excluding associate | **28,836** | 12,089 |
| profit from discontinued operations | **19,112** | 1,606 |
| profit before taxation from continued operations excluding associate | **9,724** | 10,483 |
| income tax | **1,834** | 2,350 |
| deferred income tax | **-156** | -423 |
| total income tax | **1,678** | 1,927 |

Reconciliation of effective tax rate based on continued operations

| | 2017 | | 2016 | |
|---|---|---|---|---|
| income tax based on Dutch tax rate | **2,431** | **25.0%** | 2,621 | 25.0% |
| change in domestic tax rate | **-10** | **-0.1%** | -10 | -0.1% |
| effect of tax rate for non-resident associates | **39** | **0.4%** | -146 | -1.4% |
| non-deductible expenditures | **153** | **1.6%** | 109 | 1.0% |
| tax incentive schemes | **-718** | **-7.4%** | -647 | -6.2% |
| prior-year adjustment | **-217** | **-2.2%** | - | - |
| total based on continued operations | **1,678** | **17.3%** | 1,927 | 18.3% |
| total based on discontinued operations | **-** | **-** | | |
| total | **1,678** | **5.8%** | | |

Profit from discontinued operations is exempt from income tax because the associates exemption is applied.
The change in the domestic tax rate is caused by a tax rate of 20% on the first €200 of taxable profit.
The net tax rate for associates outside the Netherlands is higher than the nominal rate in the Netherlands, which leads to an increase in the effective tax rate of 0.4%.
Non-deductible expenditures are largely costs relating to share-based remuneration.
Besides a small amount for the Energie Investerings Aftrek (EIA, Energy Investment Tax Credit) (€ - 9), tax incentive schemes consist in benefits ensuing from application of the Innovation Box tax regime (€ - 709).
The prior-year adjustment relates mainly to the release of the provisions for an uncertain tax position due to the change in the transfer pricing policy.
Net income tax payable for 2016 has been paid. The difference between income tax paid of €2,131 in the statement of cash flows and the payable amount of €1,927 is made up of advances paid in 2016 and previous years, as well as advances paid in 2017 on the profit expected for the financial year.

## 24. Result in the financial year from discontinued operations

| | 2017 | 2016 |
|---|---|---|
| revenue | 23,379 | 22,715 |
| costs | 21,598 | 20,588 |
| result before taxation | 1,781 | 2,127 |
| taxation | 445 | 521 |
| result from discontinued operations after taxation | 1,336 | 1,606 |
| book profit on sale | 17,776 | - |
| result from discontinued operations | 19,112 | 1,606 |
| proceeds from sale | 25,326 | - |
| participation value | 6,214 | - |
| | 19,112 | - |
| cash flow from operating activities | 1,336 | 1,630 |
| cash flow from investing activities | 25,167 | -323 |
| cash flow from financing activities | 123 | -1,040 |
| total cash flow from discontinued operations | 26,626 | 267 |

The information in 2017 relates to the period up to the sale on 21 November 2017.

## 25. Financing liabilities

| | 2017 | 2016 |
|---|---|---|
| cash and cash equivalents | 1,840 | 2,329 |
| short-term borrowings including bank overdrafts | -1,754 | -11,137 |
| long-term borrowings | -14,282 | -14,953 |
| net financing liability | -14,196 | -23,761 |
| cash and cash equivalents | 1,840 | 2,329 |
| fixed-interest borrowings | - | - |
| variable-interest borrowings | -16,036 | -26,090 |
| net financing liability | -14,196 | -23,761 |

| | cash and cash equivalents and bank overdrafts | short-term borrowings | long-term borrowings | total |
|---|---|---|---|---|
| Balance as at 1 January 2016 | -2,487 | -1,751 | -14,458 | -18,696 |
| cash flow | -6,116 | 1,624 | -495 | -4,987 |
| exchange differences | -78 | - | - | -78 |
| Balance as at 31 December 2016 | -8,681 | -127 | -14,953 | -23,761 |
| cash flow | 8,940 | 42 | 671 | 9,653 |
| exchange differences | -88 | - | - | -88 |
| Balance as at 31 December 2017 | 171 | -85 | -14,282 | -14,196 |

## Other information

### Development costs

| | 2017 | 2016 |
|---|---|---|
| personnel and other operating costs | **23,907** | 20,163 |
| depreciation | **702** | 1,415 |
| capitalised costs | **-** | - |
| subsidies | **-1,125** | -1,046 |
| total | **23,484** | 20,532 |

Subsidies relate to tax rebates under the Dutch Research and Development (Promotion) Act (Wbso) on account of R&D activities.

### Stichting Medewerkerparticipatie Nedap shareholding (in no. of shares)

| | 2017 | 2016 |
|---|---|---|
| balance as at 1 January | **107,983** | 96,714 |
| purchased during the year | **17,015** | 9,093 |
| bonus shares received | **4,187** | 5,017 |
| sold during the year | **-9,032** | -2,841 |
| balance as at 31 December | **120,153** | 107,983 |

Shares purchased over the period from 2014 to 2017 are still locked up. Of the 120,153 shares held, 51,589 are still in the locked-up period.
The 51,589 locked-up depositary receipts entitle holders to 12,154 bonus depositary receipts.
Stichting Medewerkerparticipatie Nedap holds approx. 1.8% of the total issued share capital.

### Proposed profit appropriation

| | 2017 | 2016 |
|---|---|---|
| Shareholder profit | **28,035** | 10,779 |
| Addition to other reserves | **-12,076** | -1,409 |
| Dividend payable on ordinary shares | **15,959** | 9,370 |

In accordance with Article 45 paragraph 1 of the articles of association, the proposal is to add €12.1 million to the Other reserves, putting the total amount available for dividend at €16.0 million. Dividend per share is therefore €2.50 (€1.40 in 2016).

## 26. Liquidity risk

| | <1year | >= 1year and < 2 year | >= 2year and < 5 year | >= 5 year | total |
|---|---|---|---|---|---|
| Contractual term of financial liabilities | | | | | |
| year-end 2017: | | | | | |
| **Non-derivatives** | | | | | |
| trade and other payables | 29,978 | - | - | - | 29,978 |
| borrowings | 85 | 87 | 195 | 14,000 | 14,367 |
| **total non-derivatives** | 30,063 | 87 | 195 | 14,000 | 44,345 |
| year-end 2016: | | | | | |
| **Non-derivatives** | | | | | |
| trade and other payables | 24,274 | - | - | - | 24,274 |
| borrowings | 83 | 85 | 912 | 14,000 | 15,080 |
| **total non-derivatives** | 24,357 | 85 | 912 | 14,000 | 39,354 |
| **Derivatives** | 123 | - | - | - | 123 |

# *Company financial statements*

*Balance sheet of Nedap N.V. at 31 December (€ x 1,000)*
*compiled before appropriation of profit*

| | note | 2017 | 2017 | 2016 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Fixed assets** | | | | |
| Intangible fixed assets | 1 | 1,687 | | 2,361 |
| Tangible fixed assets | 2 | 32,559 | | 31,445 |
| Financial fixed assets | 3 | 11,567 | | 18,164 |
| | | | 45,813 | 51,970 |
| **Current assets** | | | | |
| Inventories | 4 | 23,567 | | 17,620 |
| Trade and other receivables | 5 | 34,505 | | 36,263 |
| Cash and cash equivalents | 6 | 919 | | 280 |
| | | | 58,991 | 54,163 |
| | | | 104,804 | 106,133 |
| **Liabilities** | | | | |
| **Shareholders' equity** | 7 | | | |
| Share capital | | 669 | | 669 |
| Statutory reserves | | 1,263 | | 2,358 |
| Reserves | | 31,995 | | 42,045 |
| | | 33,927 | | 45,072 |
| Result for financial year | | 28,035 | | 10,779 |
| | | | 61,962 | 55,851 |
| **Provisions** | 8 | 3,918 | | 7,030 |
| **Non-current liabilities** | 9 | 14,000 | | 14,000 |
| **Current liabilities** | 10 | 24,924 | | 29,252 |
| **Total liabilities** | | | 42,842 | 50,282 |
| | | | 104,804 | 106,133 |

*Statement of profit or loss of Nedap N.V.*
*(€ x 1,000)*

| | note | | 2017 | 2016 |
|---|---|---|---|---|
| **Revenue** | 11 | | 155,311 | 134,587 |
| Cost of materials and outsourced work | | -60,736 | | -55,420 |
| Inventory movements of finished goods and work in progress | | 3,830 | | 5,749 |
| Personnel costs | 12 | -52,973 | | -44,915 |
| Amortisation | 13 | -742 | | -1,374 |
| Depreciation | 14 | -5,688 | | -5,857 |
| Impairment of assets | 15 | -41 | | -900 |
| Other operating costs | 16 | -27,579 | | -23,548 |
| **Total operating costs** | | | -143,929 | -126,265 |
| **Operating profit/loss** | | | 11,382 | 8,322 |
| Financing income | | 56 | | 54 |
| Financing costs | | -224 | | -241 |
| **Net financing costs** | | | -168 | -187 |
| **Result before taxation from continued operations** | | | 11,214 | 8,135 |
| Taxation | 17 | | -2,032 | -1,496 |
| Profit/loss from participations after taxation | | | -259 | 2,534 |
| **Result in the financial year from continued operations** | | | 8,923 | 9,173 |
| Result in the financial year from discontinued operations | | | 19,112 | 1,606 |
| **Profit attributable to shareholders of Nedap N.V.** | | | 28,035 | 10,779 |

## Accounting policies

Pursuant to Article 362, subsection 8, Book 2 of the Dutch Civil Code, use is made of the option to use Title 9 of Book 2 of the Dutch Civil Code for the company financial statements and apply the accounting policies of the consolidated financial statements. This ensures reconciliation of consolidated and separate shareholders' equity.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Please see the notes on the accounting policies for the consolidated financial statements for a description of the accounting policies relating to these standards.

Financial fixed assets include the Nedap group’s subsidiaries and participations where significant influence can be exercised over the commercial and financial policy.
Subsidiaries are presented as per the net asset value method, using the accounting policies of the consolidated financial statements. The net asset value of subsidiaries is increased by the value of borrowings granted to them, measured at amortised cost.


TAXI

### 1. Intangible fixed assets

| | capitalised development costs | software & licences | total intangible fixed assets |
|---|---|---|---|
| year-end 2015: | | | |
| purchase price | 13,338 | 97 | 13,435 |
| amortisation incl. impairments | -9,769 | -10 | -9,779 |
| **book value** | 3,569 | 87 | 3,656 |
| movements in 2016: | | | |
| investment | - | 79 | 79 |
| amortisation | -1,348 | -26 | -1,374 |
| **net movements** | -1,348 | 53 | -1,295 |
| year-end 2016: | | | |
| purchase price | 11,081 | 176 | 11,257 |
| amortisation incl. impairments | -8,860 | -36 | -8,896 |
| **book value** | 2,221 | 140 | 2,361 |
| movements in 2017: | | | |
| investment | - | 68 | 68 |
| amortisation | -702 | -40 | -742 |
| **net movements** | -702 | 28 | -674 |
| year-end 2017: | | | |
| purchase price | 4,345 | 244 | 4,589 |
| amortisation incl. impairments | -2,826 | -76 | -2,902 |
| **book value** | 1,519 | 168 | 1,687 |

## *2. Tangible fixed assets*

| | company buildings and premises | machinery and installations | other * fixed business assets | in progress and pre-payments | total tangible fixed assets |
|---|---|---|---|---|---|
| year-end 2015: | | | | | |
| purchase price | 36,191 | 25,190 | 52,286 | 261 | 113,928 |
| depreciation incl. impairments | -19,582 | -20,229 | -42,512 | - | -82,323 |
| **book value** | 16,609 | 4,961 | 9,774 | 261 | 31,605 |
| movements in 2016: | | | | | |
| investment | 985 | 565 | 2,421 | 1,938 | 5,909 |
| completed assets in progress | - | - | 261 | -261 | - |
| disposal (on balance) | - | - | -212 | - | -212 |
| depreciation | -1,345 | -1,128 | -3,384 | - | -5,857 |
| **net movements** | -360 | -563 | -914 | 1,677 | -160 |
| year-end 2016: | | | | | |
| purchase price | 37,176 | 25,546 | 52,350 | 1,938 | 117,010 |
| depreciation incl. impairments | -20,927 | -21,148 | -43,490 | - | -85,565 |
| **book value** | 16,249 | 4,398 | 8,860 | 1,938 | 31,445 |
| movements in 2017: | | | | | |
| investment | 544 | 826 | 2,991 | 2,751 | 7,112 |
| completed assets in progress | - | - | 1,938 | -1,938 | - |
| disposal (on balance) | - | -9 | -260 | - | -269 |
| depreciation | -1,367 | -1,041 | -3,280 | - | -5,688 |
| impairments | - | - | -41 | - | -41 |
| **net movements** | -823 | -224 | 1,348 | 813 | 1,114 |
| year-end 2017: | | | | | |
| purchase price | 34,507 | 19,499 | 24,704 | 2,751 | 81,461 |
| depreciation incl. impairments | -19,081 | -15,325 | -14,496 | - | -48,902 |
| **book value** | 15,426 | 4,174 | 10,208 | 2,751 | 32,559 |

* moulds, dies, measuring and testing equipment, furniture and fittings, computer systems and vehicles.
Tangible fixed assets are insured at new-for-old value.
A right of mortgage on immovable property amounting to €16.4 million (€16.4 million in 2016) has been granted as security for the debts owed.
Liabilities entered into at the end of the financial year were €0.2 million (€0.8 million in 2016).
Impairment is explained under 'Impairment of assets'.

## 3. Financial fixed assets

| Participations in group companies: | 2017 | 2016 |
|---|---|---|
| value as at 1 January | **14,315** | 13,169 |
| result | **199** | 3,524 |
| dividend payment | **-2,565** | -2,990 |
| Movement in current account relationships for participations | **2,877** | 634 |
| exchange differences | **-87** | -62 |
| sale of participation | **-7,550** | - |
| other changes | **-1** | 115 |
| value at 31 December | **7,188** | 14,390 |
| new borrowings issued to participations | **-** | - |
| repayments of borrowings by participations | **-75** | -75 |
| total value at 31 December | **7,113** | 14,315 |

Total borrowings issued to participations in group companies at year-end 2017: €0.6 million (€0.6 million in 2016). For these borrowings, security has been received in the form of pledging of receivables and inventories.

| Type of borrowing | Nominal interest rate | Maturity date |
|---|---|---|
| Private placement | 1.6% | 2025 |

| Associate: | 2017 | 2016 |
|---|---|---|
| value as at 1 January | **3,849** | 3,681 |
| profit/loss after taxation | **877** | 617 |
| dividend payment | **-249** | -497 |
| other changes | **-23** | 48 |
| value at 31 December | **4,454** | 3,849 |
| total financial fixed assets at 31 December | **11,567** | 18,164 |

## 4. Inventories

| | 2017 | 2016 |
|---|---|---|
| raw materials and components | **5,523** | 2,739 |
| products in progress | **1,455** | 706 |
| finished goods | **16,589** | 14,175 |
| total | **23,567** | 17,620 |

## 5. Trade and other receivables

| | 2017 | 2016 |
|---|---|---|
| trade receivables | **18,931** | 14,609 |
| receivables from participations | **11,184** | 18,240 |
| other receivables and prepayments and accrued income | **4,390** | 3,414 |
| total | **34,505** | 36,263 |

## 6. Cash and cash equivalents

| | 2017 | 2016 |
|---|---|---|
| cash | **2** | 2 |
| banks | **917** | 278 |
| total | **919** | 280 |

Cash and cash equivalents are available on demand.

## 7. Shareholders' equity

Please see the consolidated statement of changes in shareholders' equity for the 'statement of changes in shareholders' equity'.

## 8. Provisions

| | 2017 | 2016 |
|---|---|---|
| employee benefits | **842** | 730 |
| guarantee provision | **2,605** | 2,332 |
| restructuring provision | **-** | 3,349 |
| deferred tax liabilities | **471** | 619 |
| total | **3,918** | 7,030 |

## Employee benefits

Anniversary benefits provision:

| | 2017 | 2016 |
|---|---|---|
| balance at 1 January | **730** | 541 |
| withdrawals | **-28** | -73 |
| additions | **140** | 262 |
| balance at 31 December | **842** | 730 |

The anniversary benefits provision has a predominantly long-term nature.
Please refer to the consolidated financial statements for the assumptions.

### Guarantee provision

| | 2017 | 2016 |
|---|---|---|
| balance at 1 January | **2,332** | 1,953 |
| withdrawals | **-1,555** | -1,197 |
| additions | **1,828** | 1,576 |
| balance at 31 December | **2,605** | 2,332 |

An amount of €1.5 million (€1.3 million in 2016) of the guarantee provision is of a short-term nature.

### Restructuring provision

| | 2017 | 2016 |
|---|---|---|
| balance at 1 January | **3,349** | 6,225 |
| withdrawals | **-2,605** | -2,916 |
| release | **-744** | - |
| additions | **-** | 40 |
| balance at 31 December | **-** | 3,349 |

For the liability ensuing from the supply chain reorganisation, Nedap has agreed a social plan to enable arrangements in dealing with the negative consequences that the phase-out of production activities at Nedap N.V. and Inventi B.V. will have for redundant employees. The restructuring provision was formed as per the assumptions from the social plan.
At year-end 2016, the restructuring provision was of a short-term nature. At year-end 2017, there were no more liabilities relating to the social plan.

### Deferred tax liabilities

| | 2017 | 2016 |
|---|---|---|
| tangible fixed assets | **145** | 237 |
| intangible fixed assets | **380** | 555 |
| inventories | **218** | 207 |
| receivables | **-260** | -257 |
| employee participation costs | **-** | -99 |
| provisions | **-12** | -24 |
| total | **471** | 619 |

Movements in deferred tax liabilities:

| | 2017 | 2016 |
|---|---|---|
| balance at 1 January | **619** | 979 |
| charged to the profit/loss (net) | **-148** | -360 |
| balance at 31 December | **471** | 619 |

## 9. Non-current liabilities

| | 2017 | 2016 |
|---|---|---|
| borrowings | **14,000** | 14,000 |

### Borrowings

This is a credit facility with a ceiling of €14.0 million ending on 1 May 2023, under which amounts of at least €0.5 million can be withdrawn for a term of no less than 14 days and no more than 12 months. The interest rate is Euribor plus 1.6%.

## 10. Current liabilities

| | 2017 | 2016 |
|---|---|---|
| bank overdrafts | **-** | 14,298 |
| taxation and social security contributions | **1,258** | 1,380 |
| trade payables and other liabilities and accruals and deferred income | **23,666** | 13,574 |
| Total | **24,924** | 29,252 |

### Bank overdrafts

The maximum overdraft under the facility is €25 million (€25 million in 2016).
Every year, over the period from April to September inclusive, an additional facility of €5 million will be available.

### Trade and other payables

| | 2017 | 2016 |
|---|---|---|
| trade payables | **11,488** | 4,300 |
| liabilities on account of investments | **260** | 321 |
| prepayments | **1,343** | 913 |
| other liabilities and accruals and deferred income | **10,575** | 8,040 |
| total | **23,666** | 13,574 |

There are no other liabilities and accruals and deferred income with a term of over 1 year (€ - million in 2016).

## Other information

### Off-balance sheet rights and commitments

Bank guarantees issued for group companies: €1.7 million.

For corporate income tax purposes, Nedap N.V. forms a fiscal entity with Inventi B.V., to which Nedap Beveiligingstechniek B.V. also acceded on 22 November 2015.
All companies are jointly and severally liable for payment of income tax due.
The tax positions are settled between the companies through the current account.

Under Article 2:403 of the Dutch Civil Code, Nedap N.V. has assumed joint and several liability for Inventi B.V.'s debt ensuing from legal acts.

### 11. Revenue

| | 2017 | 2016 |
|---|---|---|
| products, systems, and installations | **125,815** | 110,450 |
| services | **29,496** | 24,137 |
| total | **155,311** | 134,587 |

Services consist mainly of subscriptions and maintenance contracts for Healthcare, Staffing Solutions, Retail and Security Management.

Geographical sales areas:

| | 2017 | 2016 |
|---|---|---|
| Netherlands | **43,742** | 39,112 |
| Germany | **26,141** | 20,196 |
| other Europe | **46,427** | 43,273 |
| North America | **22,330** | 18,581 |
| other countries | **16,671** | 13,425 |
| total | **155,311** | 134,587 |

No customer represents sales in excess of 10% of total revenue.

### 12. Personnel costs

| | 2017 | 2016 |
|---|---|---|
| wages and salaries | **36,680** | 33,324 |
| social security costs | **3,475** | 3,367 |
| pension costs | **3,120** | 2,378 |
| personnel restructuring costs | **- 744** | -507 |
| recharged to subsidiaries | **-2,223** | -2,500 |
| insourced staff | **9,526** | 6,593 |
| other personnel costs | **3,139** | 2,260 |
| total | **52,973** | 44,915 |

A subsequent payment of €560 as part of the settlement of the pension contract that expired at the end of 2014 had a positive effect on pension costs in 2016.

#### Average number of employees

| | 2017 | 2016 |
|---|---|---|
| Netherlands | **557** | 553 |
| other EU | **5** | 5 |
| total | **562** | 558 |

## 13. Amortisation

| | 2017 | 2016 |
|---|---|---|
| development costs | 702 | 1,348 |
| software & licences | 40 | 26 |
| total | 742 | 1,374 |

## 14. Depreciation

| | 2017 | 2016 |
|---|---|---|
| company buildings | 1,367 | 1,345 |
| machinery and installations | 1,041 | 1,128 |
| other equipment | 3,280 | 3,384 |
| total | 5,688 | 5,857 |

## 15. Impairment of assets

| | 2017 | 2016 |
|---|---|---|
| impairment of assets | 41 | 900 |

The impairment of assets relates to impairment costs of tangible fixed assets.
In 2016, impairments concerned costs relating to obsolete inventories.

## 16. Other operating costs

Other operating costs includes general, sales, accommodation, restructuring and indirect manufacturing costs.
In 2017, an amount of €2,280 (€845 in 2016) of other operating costs was recognised for the supply chain reorganisation and the phase-out of the Energy Systems business unit.

### 17. Taxation

| | 2017 | 2016 |
|---|---|---|
| profit before taxation excluding associate | **30,326** | 9,741 |
| profit from discontinued operations | **19,112** | 1,606 |
| profit before taxation from continued operations excluding associate | **11,214** | 8,135 |
| income tax | **2,180** | 1,827 |
| deferred income tax | **-148** | -331 |
| total income tax | **2,032** | 1,496 |

| Reconciliation of effective tax rate: based on continued operations | 2017 | | 2016 | |
|---|---|---|---|---|
| income tax based on Dutch tax rate | **2,804** | **25.0%** | 2,034 | 25.0% |
| change in domestic tax rate | **-10** | **-0.1%** | -10 | -0.1% |
| effect of tax rate for foreign branch | **20** | **0.2%** | 17 | 0.2% |
| non-deductible expenditures | **153** | **1.4%** | 102 | 1.3% |
| tax incentive schemes | **-718** | **-6.4%** | -647 | -8.0% |
| prior-year adjustment | **-217** | **-1.9%** | - | - |
| total based on continued operations | **2,032** | **18.2%** | 1,496 | 18.4% |
| total based on discontinued operations | **-** | **-** | | |
| total | **2,032** | **6.7%** | | |

Profit from discontinued operations is exempt from income tax because the associates exemption is applied.
The change in the domestic tax rate is caused by a tax rate of 20% on the first €200 of taxable profit.
The net tax rate for associates outside the Netherlands is higher than the nominal rate in the Netherlands, which leads to an increase in the effective tax rate of 0.2%.
Non-deductible expenditures are largely costs relating to share-based remuneration.
Besides a small amount for the Energie Investerings Aftrek (EIA, Energy Investment Tax Credit) (€ - 9), tax incentive schemes consist in benefits ensuing from application of the Innovation Box tax regime (€ - 709).
The prior-year adjustment relates mainly to the release of the provisions for an uncertain tax position due to the change in the transfer pricing policy.

## Other information

### Development costs

| | 2017 | 2016 |
|---|---|---|
| personnel and other operating costs | **23,907** | 20,163 |
| depreciation | **702** | 1,415 |
| capitalised costs | **-** | - |
| subsidies | **-1,125** | -1,046 |
| total | **23,484** | 20,532 |

Subsidies relate to tax rebates under the Dutch Research and Development (Promotion) Act (Wbso) on account of R&D activities

### Independent external audit fees

This item relates to the total fee for services provided by PricewaterhouseCoopers Accountants N.V.

| | 2017 | 2016 |
|---|---|---|
| audit of financial statements | **175** | 175 |
| audit of related contracts | **-** | - |
| taxation | **-** | - |
| total | **175** | 175 |

### Proposed profit appropriation

| | 2017 | 2016 |
|---|---|---|
| Shareholder profit | **28,035** | 10,779 |
| Addition to other reserves | **-12,076** | -1,409 |
| Dividend payable on ordinary shares | **15,959** | 9,370 |

In accordance with Article 45 paragraph 1 of the articles of association, the proposal is to add €12.1 million to the Other reserves, putting the total amount available for dividend at €16.0 million. Dividend per share is therefore €2.50 (€1.40 in 2016).

Groenlo, Netherlands, 15 February 2018

Board of Directors

R. M. Wegman
E. Urff

The Supervisory Board

G.F. Kolff, chairman
J. M. L. van Engelen
D. W. J. Theyse
M. C. Westermann

# 06

# Other information

## Audit certificate issued by the independent auditor

To: the general meeting and supervisory board of N.V. Nederlandsche Apparatenfabriek "Nedap"

### *Report on the financial statements 2017*

### *Our opinion*

In our opinion:

* the accompanying consolidated financial statements give a true and fair view of the financial position of N.V. Nederlandsche Apparatenfabriek "Nedap" as at 31 December 2017, and of its result and its cash flows for the year then ended 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 N.V. Nederlandsche Apparatenfabriek "Nedap" as at 31 December 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

### *What we have audited*

We have audited the accompanying financial statements 2017 of N.V. Nederlandsche Apparatenfabriek "Nedap", Groenlo ('the company'). The financial statements include the consolidated financial statements of "N.V. Nederlandsche Apparatenfabriek "Nedap" and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

* the consolidated balance sheet as at 31 December 2017;
* the following statements for 2017: the consolidated statement of profit or loss and the consolidated statements of comprehensive income, changes in equity and cash flows; and
* the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

* the company balance sheet as at 31 December 2017;
* the company statement of profit or loss for the year then ended;
* the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

### The 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 section 'Our responsibilities for the audit of the financial statements' of our report.

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

### *Independence*

We are independent of N.V. Nederlandsche Apparatenfabriek "Nedap" as required by the European regulation regarding specific requirements for statutory audits of the financial statements of public interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO - Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA - Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

## Our audit approach

### *Overview and context*

N.V. Nederlandsche Apparatenfabriek "Nedap" is a company which develops, produces or arranges for the production of, and markets technologically innovative products and solutions. The development activities are mainly carried out at the head office in Groenlo, in what are known as business units. The group has eight international sites that provide sales support for its products and solutions. In 2016, most product manufacturing was still being handled by a Nedap subsidiary, Inventi B.V. in Neede, but these activities were gradually outsourced to specialist partners as from 2017. By the end of 2017, this transition was as good as completed. Aside from that, the subsidiary Nsecure B.V. in Barendrecht was sold in November 2017 and subsequently deconsolidated, in accordance with the applicable accounting standards.

As the group consists of several components, we considered the group audit scope and approach as set out in the section 'The scope of our group audit'. In our audit, we paid specific attention to the aforementioned Dutch entities and the entity in Hong Kong (Nedap Asia Ltd.) as individually they are of significant size.

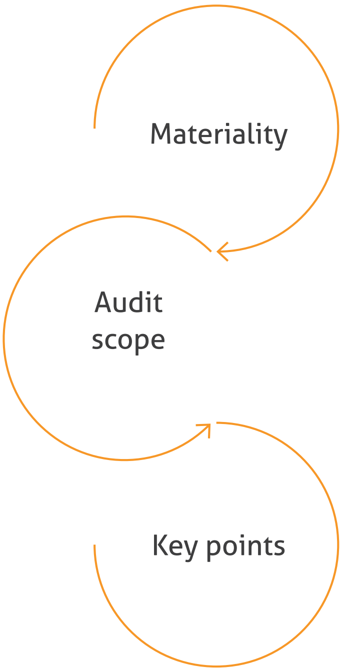
We designed our audit by determining materiality and identifying and assessing the risk of material misstatement in the financial statements. In particular, we looked at where the board of directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In the disclosed accounting policies, the company set out the accounting estimates and the key sources of estimation uncertainty. Given the significant estimation uncertainty associated with the transition of product manufacturing and logistical activities ("reorganisation of the supply chain") to specialised partners and the consequences of this for the valuation of inventory, we considered this to be a key audit matter as set out in the section 'Key audit matters'.

Furthermore, we have identified revenue testing and the sale of Nsecure B.V. as key audit matters in our audit. The diversity of the revenue streams, combined with the often informal nature of the related internal controls, resulted in relatively much attention given by us to the audit of the reported revenues. The sale of Nsecure B.V. is a one-off, significant transaction outside the group's regular operations with a significant impact on the group's results and resulting in various notes to the consolidated and company financial statements, which led us to determine this sale as a key audit matter for our audit. The key audit matters are also detailed in the 'Key audit matters' section.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Board of Directors that may represent a risk of material misstatement due to fraud. Other focus areas in our audit, which were not determined as key audit matters, include the assessment of the impact of new IFRS standards that will be applied in the years to come, the deferred tax positions and share-based remuneration.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a company which generates revenues by developing and selling products or systems, and providing related services. We included specialists in the areas of IT, taxes and share based payments in our team.

The outlines of our audit approach were as follows:




*Materiality*

* Overall materiality: €750,000 which represents 5% of the profit before tax, excluding one-off items.

*Audit scope*

* We primarily conducted our audit work at the head office in Groenlo, where Inventi B.V. is also administrated.
* We have instructed the local auditor of Nedap Asia Ltd by sending out audit instructions. We had various meetings with this local auditor to evaluate the adequacy and execution of their audit approach. We also performed inventory count procedures for inventory held by Nedap Asia Ltd. in The Netherlands.
* We engaged local auditors to perform inventory count procedures for inventory held by the group in the United States of America, given the fact that these inventories are material for our audit (€ 1.7 million).
* Audit coverage: 96% of consolidated revenue, 90% of consolidated total assets and 98% of profit before tax (excluding one-off items).

*Key points*

* Valuation of inventory
* Audit of revenue
* Accounting for the sale of Nsecure B.V.

*Materiality*

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

| | |
|---|---|
| | Based on our professional judgement, we determined materiality for the financial statements as a whole as follows: |
| **Overall group materiality** | €750,000 (2016: € 700,000) |
| **How we determined it** | We determine the level of materiality based on our professional judgement. As a basis for our judgement, we use 5% of profit before tax, excluding one-off items. These one-off items amounted to €6.0 million in 2017, as detailed on page 36 of the Directors' Report, the largest part of which are costs relating to the supply chain reorganisation. |
| **Rationale for benchmark applied** | We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that the profit before tax, excluding one-off items of €6.0 million, is an important metric for the financial performance of the company. |
| **Component materiality** | To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €300,000 and €650,000. |

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above € 37,500 (2016: €35,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

*The scope of our group audit*

N.V. Nederlandsche Apparatenfabriek "Nedap" is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of N.V. Nederlandsche Apparatenfabriek "Nedap".

We have determined the scope of our audit to ensure that our audit activities are sufficient to be able to form an opinion on the financial statements as a whole. In doing so, we considered, among other things, the group's management structure, the nature of the operations of the various business units, the business processes and internal controls.

Based on these considerations, we determined the nature and scope of the work to perform for the business units by the group team and the respective business units' auditors.

The group audit focussed on the three significant components, which are "Nedap" (company accounts), Inventi B.V. and Nedap Asia Ltd. These components were subjected to audits of their complete set of financial information as those components are individually significant to the group.

Regarding the participation Nsecure B.V., which was sold and deconsolidated in the financial year, we have audited the accounting of the sales transaction. On top of that, we have engaged local auditors to perform inventory count procedures for inventories held by Nedap Inc. in the United States of America, given that these inventories with a total value of €1.7 million are of material importance to the group.

In total, by performing these procedures, we achieved the following coverage on the consolidated financial line items:

| | |
|---|---|
| Revenue | 96% |
| Total assets | 90% |
| Pre-tax profit, excluding one-off items | 98% |

None of the remaining components represented more than 3% of total group revenue or total group assets. For those remaining components we performed, among other things, analytical procedures to confirm our assessment that there were no significant risks of material misstatements within those components.

The group audit team performed the audit of the Dutch components. The audit of Nedap Asia Ltd. was performed by the local auditor of that component. We determined the level of involvement we needed to have in their audit work to enable us to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. We sent the component's local auditor instructions in which we described the outcomes of our risk analysis and related audit approach. We also held several meetings with the local auditor of Nedap Asia Ltd. relating to their audit approach and evaluated and discussed their audit work, taking into account the audit instructions we have sent to the local auditor.

Furthermore, we engaged local auditors to measure the inventories held by Nedap Inc. in the United States of America.

The group consolidation, financial statement disclosures and a number of complex items are audited by the group audit team at the head office. The latter amongst other relates to the (deferred) tax positions, share based payments and deconsolidation of Nsecure B.V. We also had specialists in the areas of IT, taxes and share-based remuneration on our group audit team.

By performing the aforementioned procedures at components, combined with additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

*Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

The 'Valuation of inventories' and 'Audit of revenue' key audit matters are inherent to the nature of the company's operations and, like in the previous year, have been determined as key audit matters. Last year, the audit of the restructuring provision was also a key audit matter of our audit, but this provision was settled in full in 2017. For 2017, accounting for the sale of Nsecure is a new key audit matter. The development of the business and the company's performance do not give grounds for additional key audit matters.

Key audit matter
Valuation of inventory

Disclosures relating to the valuation of inventory are included in notes 5 and 20 of the financial statements

At the end of 2017 the amount presented in the balance sheet for inventories was €31.5 million (31 December 2016: €29.4 million).

In 2015 the decision was made to phase out production and logistical activities in 2016 and 2017. At the time of this decision it was also decided that products would be phased out of the product range.

On the basis of these plans the board of directors and the business units made an analysis in 2016 of the products that will be taken out of the product range immediately, phased out gradually or for which production will be outsourced. On the basis of this analysis, the board of directors made an assessment of the inventories which most likely will no longer be sold or no longer be required in the production process. This assessment has been updated in 2017, amongst others, with the sales anticipated in 2018. In 2017 no additional impairment has been processed.

The classification of the inventories as products which will be taken out of the product range immediately, phased out gradually, or for which production will be outsourced, and the assessment of the recoverability through sale or use was an important point of attention in the audit, as it has an immediate impact on the inventory valuation.

*How our audit addressed Valuation of inventory*

The classification, sales and use anticipated for 2018 by the board of directors and business units were critically reviewed by us on the basis of the transition plans, orders, correspondence with customers and recent sales patterns per product or product group. No exceptions were noted.

To evaluate the reliability of the estimations, we have also assessed how estimations made in 2016 relate to actual developments in 2017. The outcome of this analysis did not provide reason to amend our audit approach.

With regard to the inventory valuation allowance and the additional impairment, our audit procedures consisted of reviewing inventory turnover ratios as well as auditing data relating to the ageing of inventory, for which we, amongst others, audited the reliability of the source data by performing sample checks. We found no material misstatements in the reliability of the source data used.

With regard to the inventory for which no impairment was necessary according to the board of directors, we performed sample checks to determine whether there are any orders for these products and whether sales are expected on the basis of, amongst others, forecasts, and we checked whether positive margins have been achieved on recent sales. Based on our audit work performed we have found no indications for an additional impairment.

### Audit of revenue

The disclosure relating to revenue is included in note 16 of the financial statements

The revenues of N.V. Nederlandsche Apparatenfabriek "Nedap" involve contracts of various kinds which include elements concerned with the delivery of products, services (consisting of subscriptions, maintenance contracts and licences) and combinations of these elements. The nature of these contracts has a potential impact on when to recognise the revenue generated.

Within the organisational culture of N.V. Nederlandsche Apparatenfabriek "Nedap" informal checks and balances, such as the direct involvement of the board of directors and management, form an important part of the governance system. Formal control procedures at transaction level are not always visibly documented as such.

The diversity of business units, variety of elements and circumstances regarding internal control have resulted in a considerable part of our time being spend on auditing the accuracy, completeness and cut-off of the revenue recognised in the financial statements.

### *How our audit addressed* revenue

We audited the accuracy of the revenue streams by testing (on a sample basis) the revenue amounts recorded in the general ledger against the underlying sales invoices, payments received, delivery documents and sales contracts.

With regard to the completeness of the revenues from product deliveries, we audited the expected relationships between sales, purchases, production and stock movements with the help of data-analysis and sampling. We also attended the stock counts as the final step in auditing these relationships.

Depending on their nature, we audited the completeness of the revenue from services against the standing data registers, including the contract register and register of generated licences. The completeness of these registers was checked by comparing them to the primary registration of actually provided services and contracts signed. The completeness of these primary registrations was checked by evaluating the segregation of duties between the registering and controlling functions.

We audited the revenue cut-off by matching the revenue recognised to the delivery documents around the end of the year, as well as by assessing credit notes after the balance sheet date.

No material misstatements have been identified during the audit procedures.

### Accounting for the sale of Nsecure B.V.

Disclosures relating to the sale of Nsecure B.V. are provided in note 24 of the financial statements.

On 21 November 2017 N.V. Nederlandsche Apparatenfabriek "Nedap" sold one of its subsidiaries, Nsecure B.V. The sale was initiated in 2017. This sale has been recognised by N.V. Nederlandsche Apparatenfabriek "Nedap" and disclosed in the 2017 financial statements in accordance with IFRS 5 "Non-current Assets Held for Sale and

Discontinued Operations". The book profit realised on this transaction amounts to €17.8 million.

Nsecure B.V. was deconsolidated on the balance sheet for 2017 from the moment all IFRS 5 conditions were met. In the statement of profit or loss and statement of cash flows, the profits/losses and cash flows of Nsecure B.V. are deconsolidated for the entire year and the previous year.

The Board of Directors has disclosed the issued guarantees relating to this sale on page 73 of the financial statements in the off-balance sheet rights and commitments. Given that this sale is a one-off, significant transaction for N.V. Nederlandsche Apparatenfabriek "Nedap" outside the normal course of business, we have determined this transaction as a key audit matter for our audit.

*How our audit addressed Accounting for the sale of Nsecure B.V.*

We audited the sale of Nsecure based on the sales agreement and the relevant provisions in that agreement. As part of our audit work we audited the accounting and disclosures in the 2017 financial statements against the requirements of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", and also assessed whether the guarantees issued in the sales agreement were disclosed.

The calculation of the book profit was checked against contractual agreements. We matched the book values of assets and liabilities sold to the closing balance sheet of Nsecure B.V., which did not show any material differences.

We have also assessed the presentation and disclosure of this transaction, including the presentation of Nsecure's results as 'result from discontinued operations', as well as note 24 to the financial statements.

### Report on the other information included in the annual report

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

* the report of the supervisory board;
* the directors' report;
* financial targets;
* the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;
* the five-year summary and information on the organization;
* the corporate governance report;
* the reporting on Nedap and the social aspects of doing business.

Based on the procedures performed as set out below, we conclude that the other information:

* is consistent with the financial statements and does not contain material misstatements;
* contains all information that is 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 in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch

Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The board of directors is responsible for the preparation of the other information, including the directors' report and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### *Our appointment*

We were appointed as auditors of N.V. Nederlandsche Apparatenfabriek "Nedap" by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 2 April 2015. We have now been the company's auditors for a period of 2 consecutive years.

### *No prohibited services*

To the best of our knowledge and in our firm belief, we have not provided prohibited services as defined in Article 5, paragraph 1 of the European regulation regarding specific requirements for statutory audits of financial statements of public interest entities.

### *Services provided*

We have not provided the company and its subsidiaries with non-auditing services besides the audit of the financial statements in the period covered by our statutory audit.

## Responsibilities for the financial statements and the audit

### *Responsibilities of the board of directors and the supervisory board for the financial statements*

The board of directors is responsible for:

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

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

The supervisory board is responsible for overseeing the company's financial reporting process.

### *Our responsibilities for the audit of the financial statements*

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Utrecht, 15 February 2018
PricewaterhouseCoopers Accountants N.V.

Original has been signed by drs. C.J.A.M. Romme RA

## Appendix to our auditor's report on the financial statements 2017 of N.V. Nederlandsche Apparatenfabriek "Nedap"

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

### The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

* 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 intentional 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 the board of directors.
* Concluding on the appropriateness of the board of directors' use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/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 and are made in the context of our opinion on the financial statements as a whole. 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, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

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 deficiencies in internal control that we identify during our audit.

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 those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. 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.

## Articles of association provision regarding profit appropriation in accordance with Article 45

Paragraph 1:
Every year, the Board of Directors and the Supervisory Board decide how much of the profit - the positive balance of the statement of profit or loss - will be transferred to the reserves.

Paragraph 2:
From the profit after transfer to reserves as per the previous paragraph, dividend is paid on preference shares at a rate that equals the sum of the weighted averages of the European Central Bank's deposit rate - weighted based on the number of days for which payment is awarded - plus three per cent (3%). The dividend on preference shares is calculated on the paid-up part of the nominal amount. If in any one year the profit is not sufficient to pay the dividend on preference shares as specified in the first sentence of this paragraph, as much of the deficit as possible will be charged to the freely distributable part of the shareholders' equity.

Paragraph 3:
The remaining amount will be paid as dividend on ordinary shares.

Paragraph 5:
In case of a loss in any one year, no dividend will be paid for that year. Also in subsequent years, dividend can be paid only after the loss has been made up by a profit.
The general meeting can, however, following a joint proposal to that effect by the Supervisory Board and the Board of Directors, decide to offset such a loss against the distributable part of the shareholders' equity.

### *Branches*

- Public limited company 'Nederlandsche Apparatenfabriek Nedap', based in Vilvoorde, Belgium (trading under the name: Nedap België).

## Companies and management

At 15 February 2018

| | | |
|---|---|---|
| **N.V. Nederlandsche Apparatenfabriek 'Nedap'**<br>Parallelweg 2<br>7141 DC Groenlo<br>Netherlands | R. M. Wegman (51)<br>E. Urff (50) | |
| | **Business Units** | |
| | Healthcare | G.J.W. Droppers (48) |
| | Identification Systems | M. C. Mijwaart (44) |
| | Light Controls | J. Somsen (53) |
| | Livestock Management | A. B. M. Verstege (55) |
| | Retail | R. Schuurman (48) |
| | Security Management | F. van der Zee (43) |
| | Staffing Solutions | G.K. Hollander (35) |
| | Nedap SMART | P.G.M. Oostendorp (54) |
| **Nedap België**<br>Maria-Theresialaan 2.0.1<br>1800 Vilvoorde<br>Belgium | T. Elferink (34) | |
| **Nedap Beveiligingstechniek B.V.**<br>Groenekanseweg 24A<br>3737 AG Groenekan<br>Netherlands | E. Groeskamp (56) | |
| **Nedap France S.A.S.**<br>8-10 Chemin d'Andrésy<br>95610 Eragny sur Oise<br>France | C. Paijens (58) | |
| **Nedap Deutschland GmbH**<br>Otto-Hahn-Strasse 3<br>40670 Meerbusch<br>Germany | I. A. C. van Balveren (51) | |

| | |
|---|---|
| **Nedap Great Britain Ltd.**<br>1310 Waterside<br>Arlington Business Park<br>Theale, Reading<br>Berkshire<br>RG7 4SA<br>Great Britain | E. Groeskamp (56) |
| **Nedap Iberia S.A.**<br>Avenida de los Llanos 18<br>28430 Alpedrete Madrid<br>Spain | T. Elferink MSc (34) |
| **Nedap China Ltd.**<br>Room 2507, Longemont Yes Tower<br>No. 369 Kaixuan Road<br>200051 Shanghai<br>China | E.H. Ridderinkhof (33) |
| **Nedap Asia Ltd.**<br>Austin Plaza<br>15F, Units 3&4<br>No 83, Austin Road<br>Kowloon<br>Hong Kong | E.H. Ridderinkhof (33) |
| **Nedap FZE**<br>DSO Head Quarters, D-205<br>Dubai Silicon Oasis<br>Dubai<br>United Arab Emirates | J.H.W. van Ruijven MSc (34) |
| **Nedap Inc.**<br>401 Edgewater Place<br>Suite 560, Box 10<br>Wakefield, MA 01880, USA | M.J. Bomers (35) |

07

# Nedap and the social aspects of doing business

# *Nedap and the social aspects of doing business*

**We at Nedap focus on smart applications of top-quality technology to help solve the challenges of today and tomorrow. We want to know exactly what needs there are in the market and what moves organisations. Through unrelenting investment in development, we are able to provide high-quality, secure and sustainable products, services and systems that exceed the expectations of customers and end users, while also making them better prepared for the future. As a company, we want to truly make a difference.**

## Key principles

We have identified the following three key principles in the area of corporate social responsibility:

1. Enabling our people to develop and thrive. We offer an environment where respect for individuals is combined with a strong team spirit. As explained in the Directors' Report, our people are an essential part of Nedap's value creation model.

2. Care for the environment and our living environment. Nedap's propositions help customers make their operations more sustainable, and they contribute to making a better world.

3. Rigorous but objective selection of parties for our value chain. We aim to ensure that our partners abide by the same strict standards in terms of ethics and integrity as we do.

Needless to say, Nedap's Board of Directors is ultimately responsible for ensuring that these principles are adhered to and respected, and that they play a role on an operational, tactical and strategic level, such as in the company's hiring policy or in specific collaborations. These principles are, however, so deeply embedded in our organisation that no formal procedures have been implemented to enforce them. The underlying given is that these principles are supported broadly across Nedap, and felt and experienced externally, also without formal requirements.

## Nedap's culture

The people who work at Nedap are independent, self-willed, enterprising and highly motivated people who take responsibility for their actions. We firmly believe that we, as a company, can only keep growing if we always make our team our top priority. Our team has to be challenged every day to realise sustainable value creation (as described in the Directors' Report) for our customers through optimum use of talent and skills. To be and stay competitive in our markets, employees have to be given the opportunity to come up with new ideas, suggest unconventional solutions, run experiments and take initiative. This does not mean we do not need organisational frameworks or structures at all: it means that we expressly want employees to dare to venture outside these frameworks. Managers at the various business units, departments and subsidiaries always try to encourage employees to take personal initiative and personal responsibility as much as possible.

To enable creation and maintenance of this kind of culture, we have a flat organisation. Daring to ask questions, challenging each other, giving honest feedback, taking a healthy critical approach to things and letting go of conventions are all things that are part of working at Nedap, based on the belief that a lack of guts is often the biggest risk a company faces.

# *Nedap and the social aspects of doing business*

In 2016, one of our colleagues suggested that we start using Facebook's Workplace platform at Nedap. We decided to take his advice, and it has turned out to be the perfect way of connecting people at Nedap. We are now using it for a broad array of purposes, such as to ask specific questions to specialists within a group or to share practical information for colleagues, but also to publish directors' speeches or other presentations intended for all employees across the organisation.

We set great store by enabling our people to look beyond company interests, i.e. to have regard for the inevitability of friction between what is good for the world, for our customers and for our customers' end users, and to carefully weigh up these interests every time in deciding what is the right thing to do.

## Robust

A healthy financial position and a robust business model are prerequisites for optimum and responsible realisation of our ambitions, as formulated in the Directors' Report. Nedap is organised in business units that work together and, wherever possible, share ideas and specific and in-depth knowledge of technology and the market, thus contributing greatly to our continuity. As a result, we have a robust portfolio that is primed for changes in markets and economic trends.

One important strategic principle is that we operate only in markets where we can make a difference. In our decision-making, both at group level and at the various business units, the interests of all our stakeholders are carefully weighed up to strike a balance between financial results and the social aspects of doing business.

# *Nedap and the social aspects of doing business*

## Sustainability: concrete and measurable

At Nedap, sustainability is more than a catch-all for all kinds of good intentions. We make our sustainability ambitions concrete, such as by optimising production processes, but also by pursuing a responsible procurement policy. Our overriding aim is to minimise the harmful environmental impact of our operations, and even prevent it altogether wherever we can. This ambition permeates every stage of our production process and the full life cycle of our products, from obtaining natural resources, reducing the use of harmful chemicals, manufacturing the products and their ultimate use to waste management and possible reuse. And we couple this with a keen focus on reducing the amount of packaging and reusing or recycling packaging. Each and every one of our business units aims to cut their energy consumption and develop energy-efficient products, services, and systems. Nedap furthermore uses renewable power.

All our business units create intelligent technological solutions in socially relevant areas such as protection of the environment and our living environment, and the health and safety of people and animals.

Here are a few examples of our efforts and achievements in this area. It should be noted, however, that this is only a very small selection from our wide range of products, services and systems that help create a better and cleaner world.

With its smart light management systems, our Light Controls business unit enables energy savings of up to 65%, thus empowering companies to meet their sustainability targets.

Livestock Management developed an advanced system for animal identification that leads to better cattle management at cattle farms, while also improving animal welfare.

The Identification Systems business unit develops high-end technology to improve the flow of traffic in densely-populated areas, bringing better air quality and quality of life to these areas.

Specialists at our Healthcare business unit work on reducing the administrative burden in the healthcare industry in order to help improve patient care.

## *Nedap and the social aspects of doing business*

### Broad responsibility

As a globally-operating enterprise, we are active members of a large number of communities. This also comes with several responsibilities. In concrete terms, it means that:

* Integrity and responsibility are at the basis of everything we do. Bribery or other unethical practices are – needless to say – absolutely forbidden and we avoid conflicts of interest at all times.
* We stimulate free enterprise and fair competition. Wherever possible, we strive to meet the needs of our customers faster, better and more clearly than our competitors. In doing so, we compete fiercely but always fairly.
* We strive for open and honest communication.
* We respect and guarantee confidentiality and privacy under all circumstances.
* We set great store by social equality. Our workforce is, as much as possible, a reflection of the societies in which we operate. Diversity in our workforce ensures that matters are approached from different perspectives, which leads to greater creativity and solution capabilities. As a tech firm, the gender composition of our workforce, and also in many management positions in particular, depends partly on the number of women coming out of higher education with a degree in a technical field.
  We never discriminate on the basis of race, ethnic background, age, religion, gender, sexual orientation or disability.
* We respect human rights, as specified in the Universal Declaration of Human Rights.

* We work within the legal frameworks applicable in the countries in which we operate and abide by the principles and requirements of international law under all circumstances.
* We never use hard labour, forced labour, or child labour and always act as per the standards and frameworks of Conventions No. 138 and No. 182 of the International Labour Organization and the UN Convention on the Rights of the Child.
* Wages and benefits are in full compliance with local legislation and standards, and aligned with the general principle of just and fair treatment.
* We investigate, based on the OECD guideline, how companies with which we do business deal with human rights, such as by conducting company visits. Such investigations will be conducted in a way that matches Nedap's size and the nature and context of its operations, as well as the seriousness of the risks of adverse effects on human rights.
  In fact, we only do business with organisations that, like us, hold the above values in high regard and - as shown by the results of our screening - operate accordingly. Whenever we find that they do not, we switch to another partner or supplier.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# corporate governance

## Nedap

Nedap focuses on smart applications of technology to help solve the challenges of today and tomorrow, challenges in areas such as healthcare, security, food supply and drinking water. With our propositions, we want to build leading positions in attractive markets. We understand what technology needs to do for our customers and end users and how they want to use it.

Nedap is organised in seven business units that work together, sharing their ideas and knowledge of technology and the market. All business units – Healthcare, Identification Systems, Light Controls, Livestock Management, Retail, Security Management and Staffing Solutions – are based at Nedap's head office in Groenlo, the Netherlands. Whenever necessary, our teams work together to continuously add value for our customers' objectives and processes. Only then will we give our customers the lasting competitive edge that will help them make the difference. Nedap employs 655 people worldwide, 540 of whom are based in the Netherlands.

Nedap's long-term policy is aimed at creating sustainable value added for customers, staff and shareholders. The value creation model, as described in the Directors' Report, is the main driver behind Nedap's operations.

## *Nedap and risk management*

### I Culture

Nedap has a culture of entrepreneurship where employees' personal responsibility, independence and ownership come first. There is a firm belief across the organisation that such ownership leads to optimum risk management. The Board of Directors, managers, as well as Supervisory Board members, play a key role in this respect. They are the guardians of a culture where everyone feels empowered and free to handle risks responsibly. This is inspired by the firm belief that Nedap has a workforce of highly competent specialists who have the kind of skills and experience that is needed to be able to anticipate the consequences of their actions and decisions. Interactions in and between teams, between business units, and with the Board of Directors are so well-developed at Nedap that they create a powerful system with strong informal checks and balances.
These informal checks and balances are supplemented with formal procedures and controls wherever these are compulsory or deemed useful. Strategic and operational decisions are targeted at creating sustainable value,
which implies that decisions take long-term effects into account. This prevents decisions being made that serve only short-term gains and destroy value in the longer term. The benefit of this approach is that it ensures that risk management is solidly integrated into and inextricably linked to operations.

### II Risk appetite

Nedap's risk appetite in terms of proposition development and commercial initiatives is medium to high. But when it comes to compliance with legislation and regulations, Nedap's risk tolerance is zero, as Nedap always respects the spirit of the law.

### III Risk Management Framework

#### *Global risk management programme*

Nedap has formal and informal frameworks in place for responsible risk management.
These are based on the Nedap COSO Risk Management Framework that was updated in 2016 and subsequently adopted by the Board of Directors and the Supervisory Board.

Important focus points in this Framework include Nedap's presence in international markets and global digitalisation, which are factors that come with risks such as those involved in developing new software-as-a-service propositions and the global roll-out of products that have to meet international instead of local standards, but also the risk involved in working with customers and partners with whom we have not yet built a working relationship. Operating in new jurisdictions also means we are faced with new compliance requirements.

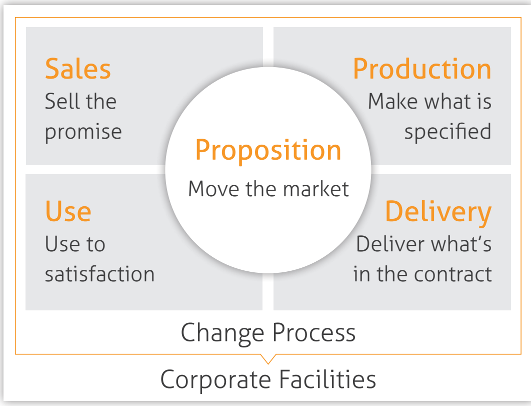
In 2015, Nedap launched a global risk management programme for the entire group. Key elements of this project that were tackled in 2016 included the formulation and adoption of the updated Nedap COSO Risk Management Framework and amplification of risk management capacity. The Nedap COSO Risk Management Framework is based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) standard, which was developed in 2002 and updated in 2013. In a nutshell, COSO has identified correlations between enterprise risk and the internal control system. The Nedap COSO Risk Management Framework contextualises all COSO principles for Nedap and links them to business processes, procedures and available data. In 2016, workshops were held at all of Nedap's business units to raise awareness of risk management and identify the most pressing risks. In 2017, this was followed up with risk management workshops and analyses for the various subsidiaries. On a group-wide level, the focus was specifically on risks relating to issues such as IT/Cybersecurity, the ongoing supply chain reorganisation, operations in North America and export compliance. In 2018, the risk management programme will focus on efforts such as translating the 2017 version of the COSO model to the Nedap COSO Risk Management Framework, managing the risks involved in the last stage of the supply chain reorganisation and building a Nedap-wide framework for IT/ Cybersecurity.

### Risk categories

Nedap has designed its COSO Risk Management Framework around its business processes. Scenario and other analyses were used to identify the risks involved in each business process.

* Proposition: a possible risk in this respect is the hypothetical situation where the market potential of a new product, service or system has been overestimated, while (significant) funds have already been poured into it.
* Sales: disappointing new product sales or a new product is not up to expectations. Disappointing revenue and a damaged reputation are possible risks in such cases.
* Production: loss-causing developments that can occur in production include delays or higher-than-projected procurement costs.
* Delivery: features promised in a new product, service or system may be unsatisfactory or lacking altogether.
* Usage: possible risks are when the use of products, services or systems leads to damage to people or the environment, which would also come with damage to Nedap's reputation and financial consequences.

Aside from these 5 risk areas, Nedap also faces risks in its support functions, which create enabling conditions for the above processes. These functions include IT, HR, production, sourcing and controlling.




Risk Management Framework

The three most important risks for Nedap are:

1. Proposition development
   It is of vital importance to Nedap to have a sufficient number of value-creating propositions to be able to stay relevant for customers in the future. For many of Nedap's propositions, it takes a (considerable) number of years before we know how successful they are. And successful propositions can be thwarted by technological changes, causing market positions to change rapidly. Nedap mitigates this risk by closely monitoring the performance and potential of individual propositions. Having a portfolio with multiple propositions reduces Nedap's dependency on individual propositions. IT is an integrated part of many of Nedap's propositions to ensure they are aligned with current and future market requirements. If this IT is unavailable due to technical or organisational reasons, the proposition loses a lot of its functionality, exposing customers and partners to potential losses.

2. Talent development and recruitment
   Nedap staff in the Netherlands and internationally are the basis of our competitive strength, our capacity for innovation and the company's continuity. One of the biggest risk

factors is therefore an inability to attract, retain and develop enough top talent. With this in mind, Nedap has launched a large number of initiatives in the area of People Excellence.

3. Supply chain reorganisation
   The outsourcing of a significant part of our production and logistics activities comes with operational risks as we have to guarantee supply continuity. Nedap works with a number of strategic production and logistics partners. Despite the extensive measures taken to mitigate any risks involved in such partnerships, Nedap does not have absolute control over these partners' performance.

Fraud is treated as a separate risk area within the Framework. Again, this is countered by a specific risk regime and process, as laid down in Nedap's whistle-blower policy and code of conduct.

### *Levels of control*

The Nedap COSO Risk Management Framework recognises three levels of control based on the extent of impact on the organisation and its operations.

- The first level of control is Normal Operation. Whenever a risk manifests itself, the impact of this risk is not critical or vital for the company or one of the business units. Those involved will resolve or repair the fallout of such a situation as they deem appropriate. Reporting the situation to the Board of Directors at incident/operational level is not necessary.
- The second level is called Critical Operation and relates to risks that potentially cause substantial losses for a business unit or damage the company as a whole. Occurrence of such risks must trigger application of Nedap's risk management processes.
  The Board of Directors must be notified of the risk management process that was used to deal with the risk in question.
- The third level is Vital Operation. This is when a risk materialises that may have very serious consequences for a business unit and can cause substantial losses for the company as a whole. Such a risk must also be countered by implementing Nedap's risk management processes. In this kind of situation, the Board of Directors must receive a comprehensive report on the risk, fallout and process implemented as soon as possible. The Board of Directors will decide on a possible follow-up.

### IV Financial targets

Nedap's primary financial target is sustainable value creation in the form of cash flow-generating company equity in the short and the long term.

The 6 financial targets are described on page 45. These targets are tracked in a five-year outlook on page 46.

### V Financial risk management

The Nedap management system identifies and mitigates a number of financial risks. These risks are also detailed in the financial statements.

### *Credit risk*

Credit risk is the risk of financial losses for Nedap due to non-compliance with payment obligations on the part of a customer or counterparty. Credit risks arise in particular on receivables from customers. Nedap reduces this risk by insuring trade receivables where possible. The risk of non-payment then lies largely with the credit insurance company. If possible, security is requested from trade debtors who cannot be insured. If necessary, a provision for doubtful debts is formed.

### *Liquidity risk*

Liquidity risk is the risk that Nedap cannot meet its financial obligations when they become due. Nedap reduces this risk by maintaining sufficient access to capital. In this respect, an ample credit facility running through to May 2023 has been taken out, whereby the total facilities of €46.0 million (including temporary facilities of €5.0 million in the period from April to September) are not subject to covenants. Nedap uses a target net debt/EBITDA of a maximum of 1.5, whereby deviations from this target figure are possible only if necessary for strategic reasons.

*Currency risk*

Nedap reduces the currency risk by restricting the size of transactions in foreign currencies and, if necessary, hedging these risks. For the most important foreign currency - the US Dollar - an internal hedging system is used on a global scale, which means that payments in US Dollars are made using US Dollars available elsewhere in the company. Net US Dollar transactions, minus costs, did not exceed 2% of revenue in 2017 (4% in 2016). Net transactions in other foreign currencies were no more than 2% of revenue each. A change of 10% in the US Dollar exchange rate would affect the profit for the financial year by €0.4 million.

*Interest rate risk*

A change of 100 basis points in interest rates would affect the profit for the financial year by €0.3 million (€0.3 million in 2016).

*Market risk*

Nedap reduces its market risk by operating in different geographical markets and areas of application with different products.

### Capital management

Nedap strives for a conservative financing structure reflected by a solvency ratio of at least 45% and net debt/EBITDA of a maximum of 1.5. Temporary deviation from this target is possible for strategic reasons. In 2017, these ratios were 55% and 0.6 respectively (48% and 1.0 in 2016).

### VI Financial management system

Nedap has an adequate and effective financial management system which is designed to:

* test actual progress and performance against the objectives
* enable management to retain control over responsibilities delegated to others
* manage cash and cash-equivalent flows within the organisation
* identify and restrict risks
* prevent fraud

The internal information and reporting flows are as follows:

A Article 20 of the Articles of Association of Nedap N.V. specifies which actions the Board of Directors is only allowed to perform with the prior approval of the Supervisory Board.

Each year, the Board of Directors provides the Supervisory Board with an outlook for the coming years which, on the basis of the knowledge available at the time, sets out the company strategy and provides a breakdown of figures in a budget for the coming year, as well as forecasting expected developments for the foreseeable future.

The Board of Directors also reports regularly (ten times per year) to the Supervisory Board on the actual performance versus budget.

The Supervisory Board meets at least five times per year, and more often as necessary, to discuss these reports and other matters.

The Supervisory Board members have regular direct meetings with managers of the various business units, which are not attended by members of the Board of Directors. Please refer to page 17 for details on the composition, competence and way of working of the Supervisory Board.

B The business unit managers set out their visions each year in the budget. This includes, on the basis of the financial objectives, plans relating to the market, R&D efforts, staffing and capital investments. These plans have been translated into a financial estimate of revenue, value added, operating costs, results and investments.

The business unit managers also report regularly (ten times per year) and extensively to the Board of Directors on the actual performance versus the budget.

In addition to this formal reporting system, a regular exchange of information takes place between the Board of Directors and the business units. This is made easier by the fact that the Board of Directors and management are based in Groenlo.
Aside from that, the Board of Directors and business unit managers have specific consultations before making final decisions, in the interest of Nedap as a whole, on:

* significant market-related matters
* R&D projects
* appointment of staff
* investments.

Certain actions by the boards of subsidiaries are subject to the approval of the Board of Directors of Nedap. In addition, a budget, forecast statement of profit or loss, forecast balance sheet and planned investments and staffing must be submitted for the coming year. Regular reports on these matters are also submitted (ten times a year) to the Board of Directors on the actual performance versus budget.

C The Group Controlling department in Groenlo plays a leading role in terms of financial management.

This department ensures that the administrative organisation and data processing are sufficient to ensure uniform and correct handling of all financial and business matters.
It has set up a uniform reporting system (including explanatory notes) that is designed to supply the information required by the heads of the business units. The department also ensures the correct, complete and timely delivery of these reports (ten times a year).
The department also assesses the various administrative organisations, devoting attention to the prevention of possible fraud.

Group Controlling in Groenlo also holds operational responsibility for financing, cash management, currency management and taxes. On such matters, they have timely and regular consultations with the Board of Directors.

Group Controlling in Groenlo is in charge of the risk management process globally. They are furthermore responsible for the execution of the aforementioned multi-year risk management programme, which sees them work closely together with teams of employees in both the Netherlands and other countries.

D Nedap limits financial reporting risks by reporting based on the International Financial Reporting Standards (IFRS), which are, in fact, compulsory standards for listed companies in the Netherlands. Group Controlling sees to compliance with these standards in the preparation of financial reports for external publication. They regularly consult with IFRS experts, and they have access to all IFRS, IAS and IFRIC (IFRS Interpretations Committee) standards or decisions (or proposed decisions) and/or interpretations and guidance by their auditor.

E The external auditor acts as objective assessor of the above process for the parts relevant to the audit of the financial statements.

## Directors' statement

The Board of Directors states that the internal risk management and control systems, as described above, provide a reasonable degree of assurance that the company's financial reporting is free of material errors or an incorrect presentation of facts. The financial reports give a true and fair view of the company's financial situation and results of its activities and the required notes. The financial reporting risk management system has operated satisfactorily over the financial year.

Despite the internal risk management and control systems, material errors, fraud and unlawful actions can still take place. The systems therefore do not provide absolute assurance that targets will be achieved, but have been developed to obtain reasonable assurance as to the effectiveness of controls implemented to mitigate financial and operational risks in relation to organisational objectives.

## Taxation

### Policy

Policy in the area of taxation starts from the given that we pay taxes globally based on the economic value of our activities. For years, Nedap has pursued a conservative tax risk policy.
Paying taxes is an integral part of the sustainable value the company creates for society.

This basic given has been captured in the following principles:

* Nedap's primary financial target is to create sustainable value
* The design of the Nedap organisation is based on operational considerations,
  not on taxes
* Nedap pays taxes in line with the economic value created by activities
* Nedap complies with relevant tax legislation and regulations and respects the spirit of the law
* Nedap maintains timely and comprehensive communications with tax authorities
* Tax compliance is integrated into the Nedap COSO Risk Management Framework (see page 127).

### Execution

Nedap's tax policy ties in with the global governance model. Our Dutch operations consist mainly of strategy design, product development, marketing, sales, supply chain management, service, procurement, production and controlling. Activities in other countries consist almost exclusively of local sales. As a result of this governance model, a large part of the group's economic value, and therefore a large part of the total group profit, is generated in the Netherlands.

As per the company's transfer pricing policy, Nedap aims for all Nedap companies to post profits that are in keeping with the scale and risk of their activities in their respective countries. Such profits are subject to all applicable local taxes.
In the Netherlands, Nedap has agreed on a horizontal supervision regime with the Dutch Tax and Customs Administration.
In the spirit of this arrangement, Nedap provides the Dutch tax authorities timely and full insight into all relevant developments that affect current and future trends in the group's results.

Managers of the various Nedap companies/subsidiaries are evaluated based on the operating results of their respective business entity. Taxes are not a factor in such evaluations. However, company/subsidiary managers are responsible for local compliance, including with tax legislation and regulations.

Implementation of the global tax policy and monitoring of compliance therewith is coordinated by Group Controlling in Groenlo. Dilemmas and assessments regarding taxation (and other legal matters) have been integrated into and are explicitly specified in the Nedap COSO Risk Management Framework.
This means, among other things, that awareness is raised through workshops, that policy and procedures are in place to make assessments, and that risk estimation and decision-making are institutionalised. The Framework applies to companies and employees worldwide, focusing specifically on the aspects of taxation, finance and legal risks. Tax risks are part of the Nedap Financial Management System, as detailed on page 130. Group Controlling is in charge of this. All companies regularly report on their tax costs, taxes paid and their tax position. Group Controlling formulates and implements the transfer pricing policy and also actively monitors compliance. Where necessary, they engage external experts for more in-depth knowledge or to ensure compliance.

One specific measure that has been taken to manage tax and other risks is that the management of virtually every single subsidiary is made up of controllers that spend a considerable part of their time working at Group Controlling in Groenlo.

### Situation in 2017

In 2016 and 2017, a lot of time and effort has gone into documenting and executing the transfer pricing policy within the framework provided by Base Erosion & Profit Shifting ('BEPS'). Nedap's existing policy is well aligned with OECD recommendations in terms of BEPS. It should be noted, however, that tax complexity is relatively low at Nedap and that a large part of the economic value of Nedap's activities is generated in the Netherlands.

Globally, Nedap has one ruling with tax authorities. This ruling concerns an agreement with the Dutch Tax and Customs Administration to apply their Innovation Box tax regime. In 2017, a new agreement was reached for the 2017-2021 period, the conditions of which are comparable to those of the 2016 agreement.

Nedap does not use so-called tax havens and does not have any third-party arrangements aimed at evading or avoiding taxes.

Please refer to page 94 for detailed information about the difference between effective tax rate and statutory tax rate, the tax position and taxes paid.

## Governance

The Supervisory Board and Board of Directors of Nedap are responsible for Nedap's corporate governance, as well as for compliance with the 2016 Dutch Corporate Governance Code (Code). For the full text of this Code, please refer to www.commissiecorporategovernance.nl. The idea behind the Code is to create a solid and transparent system of checks and balances at Dutch listed companies and to regulate relationships between Board of Directors, Supervisory Board and the (general meeting of) shareholders to achieve that. Given that this Code acquired a statutory basis on 7 September 2017,
we are rendering account in this report vis-à-vis our compliance with this revised Code, which like the previous code is based on the principle of 'apply or explain'. The information required under the Code can be found in various sections of this report for 2017.

### *Management and supervision*

Since Nedap has a 'two-tier' board structure, its Supervisory Board members are appointed by the general meeting of shareholders following nomination by the Board. The shareholders and the works council are also given an opportunity to recommend persons for appointment.

The profile for the size and composition of the Supervisory Board is described in the 'Supervisory Board profile' section in the annual report and also on the company's website. The membership of the Supervisory Board conforms to the profile and currently consists of four persons. The Supervisory Board member details section lists the details of the Supervisory Board members, including their professional background. The members are independent of the company and of each other. The number of supervisory directorships they hold at Dutch listed companies is below the cap on supervisory positions for directors and supervisory board members.
In view of Nedap's transparency and the limited size of the Supervisory Board, the Supervisory Board has no separate audit, remuneration or selection and appointment committees. Consequently, the full Supervisory Board has been designated to perform the duties of the audit and other committees.
The chairman of the Supervisory Board monitors the quality and frequency of the information flow on the company's financial performance, market position, product development and organisational progress. The Supervisory Board as a whole assesses the financial and other information.

Remuneration agreements made with the Board of Directors are set out below. The chairman and a member of the Supervisory Board hold annual appraisal interviews with the members of the Board of Directors on the basis of predefined targets. The variable income of the Board of Directors is determined by the performance of its members with respect to those targets. The maximum variable remuneration is 90% of the fixed annual income.

The Board of Directors under the articles of association has two members:

R. M. Wegman (51), CEO, male

| | | |
|---|---|---|
| Nationality | : | Dutch |
| Relevant additional positions | : | none |
| Joined | : | 1 July 1997 |
| Supervisory board memberships | : | none |

E. Urff (50), CFO, male

| | | |
|---|---|---|
| Nationality | : | Dutch |
| Relevant additional positions | : | Advisory Board member at Eiffel, Arnhem |
| Joined | : | 1 November 2014 |
| Supervisory board memberships | : | none |

The members of the Board of Directors do not hold any capital and/or voting interests in other companies that conflict with those of Nedap. However, it has been agreed that the acquisition of capital and/or voting interests in another company that might give rise to a potential conflict of interests shall be avoided and, in case of doubt, shall be discussed in advance. This applies to members of both the Supervisory Board and the Board of Directors.

*Remuneration policy for the Board of Directors under the articles of association*

The aim of the remuneration policy is to have a compensation package for the Board of Directors that will help to attract and retain qualified and expert directors, while also ensuring and advancing the medium and long-term interests of the company.

The compensation package for the Board of Directors comprises:

I Fixed annual income

Fixed annual income that is revised each year at least by a percentage equal to that of the salary increase provided for in Nedap's collective labour agreement.

II Variable annual income

The variable annual income depends on the members of the Board of Directors meeting targets set in advance by the Supervisory Board. One third of the variable income is determined by financial targets, one third by targets relating to the development of the internal organisation and one third by targets focusing on the way in which the organisation operates in its environment.

60% of the fixed annual income is paid for performance at target level, with a maximum of 90% of the fixed annual income.

Each director must contribute at least 50% of his variable annual income after taxation to Stichting Medewerkerparticipatie Nedap in exchange for depositary receipts. This means that a significant part of the variable income is dependent on the company's long-term performance.

The Supervisory Board may increase or decrease the variable income if, in its opinion, the calculations lead to an unreasonable outcome.

If variable remuneration is granted on the basis of incorrect information, the Supervisory Board is entitled to recover it from the director concerned.

The compensation package for the Board of Directors has been set taking into account internal pay relationships and market information.
The compensation package is reviewed regularly to ensure that it is still competitive and in line with the extent and complexity of the duties.

The Board of Directors has the same defined contribution pension plan as Nedap N.V. staff, albeit that the defined contribution is 6/5 of the premium for staff and that the minimum old-age pension deductible is applied. Like staff members, board members are entitled to compensation for the employer's contribution released as a result of the statutory pensionable wages cap. The pensionable salary is based on the fixed annual income.

No agreements that derogate from the law have been made with the members of the Board of Directors regarding a period of notice.

As of 1 January 2015, directors under the articles of association appointed after this date are entitled to contractual severance pay that does not exceed the compensation specified in provision 3.2.3 of the Dutch Corporate Governance Code.
A severance package was not agreed with directors appointed before 1 January 2015.
No loans, advances or guarantees have been granted to the directors.

*External communications*

Nedap publishes an overview of the company's performance and progress at least five times a year. Besides the annual report, these communications come in the form of notices about the financial affairs during the first six months and the year as a whole. In the spring and autumn, two interim reports are published about market developments that are relevant to Nedap, the most important events and transactions, and the consequences thereof for Nedap's financial position. These reports and much more information can be found on the website www.nedap.com.

*Principles and best practice provisions*

Nedap largely endorses the Code's basic and broadly supported principles. Several of the Code's provisions require further explanation because Nedap applies them in a different way, for which we provide solid reasoning.

## *CHAPTER 1. LONG-TERM VALUE CREATION*

Principle 1.3 Internal audit function

**The internal audit function is intended to monitor the set-up and effectiveness of internal risk management and control systems. The Board of Directors is responsible for the internal audit function. The Supervisory Board oversees the internal audit function and has regular contact with the person fulfilling this role.**

1.3.1 Appointment and dismissal

**The Board of Directors appoints and dismisses the internal auditor. The appointment and the dismissal of the managing internal auditor are both submitted to the Supervisory Board for approval, along with a recommendation by the audit committee.**

Given its scale and working methods, Nedap does not have an internal audit service or function.

Nedap has a culture of entrepreneurship where employees' personal responsibility, independence and ownership come first. There is a firm belief across the organisation that such ownership leads to optimum risk management. The Board of Directors, managers, as well as Supervisory Board members, play a key role in this respect. They are the guardians of a culture where everyone feels empowered and free to handle risks responsibly. This is inspired by the firm belief that Nedap has a workforce of highly competent specialists who have the kind of skills and experience that is needed to be able to anticipate the consequences of their actions and decisions. Interactions in and between teams, between business units, and with the Board of Directors are so well-developed at Nedap that they create a powerful system with strong informal checks and balances. These informal checks and balances are supplemented with formal procedures and controls wherever these are compulsory or deemed useful. Strategic and operational decisions are targeted at creating sustainable value, which implies that decisions take long-term effects into account. This prevents decisions being made that serve only short-term gains and destroy value in the longer term. The benefit of this approach is that it ensures that risk management is solidly integrated into and inextricably linked to operations.
On an annual basis, the Supervisory Board and Board of Directors assess whether adequate alternative controls are in place, considering whether there is a need to set up an internal auditing service after all. The Supervisory Board will include the conclusions in the Supervisory Board report, as well as any recommendations and alternative controls that emerged during the meeting. The external auditor also assesses

the parts of the internal risk management and control systems that are relevant in light of the audit of the financial statements.
Partly given Nedap's and the Supervisory Board's limited size (4 members), the Supervisory Board still believes that setting up separate committees within the Supervisory Board is not required and desirable at this stage. The Supervisory Board as a whole will continue to be responsible for correct execution of the tasks of the audit committee, in line with best practice provisions relating to such committees.

1.7.2 Audit plan and findings of the external auditor

**Prior to submitting the draft audit plan to the audit committee, the external auditor discusses it with the Board of Directors. The audit committee will discuss the following with the external auditor on an annual basis:**

i. **the scope and materiality of the audit plan and the main risks of the annual reporting specified by the external auditor in the audit plan; and**

ii. **partly based on the underlying documents, findings and outcome of the auditing work for the financial statements and the management letter.**

The audit plan for the audit of the 2017 financial year was discussed with the Board of Directors by the auditor, and subsequently shared with the Supervisory Board. A management letter will not be drawn up and is therefore not a subject for discussion. However, the auditor does discuss the findings and outcome of the audit, as reported in the auditor's report, with both the Board of Directors and Supervisory Board.

## *CHAPTER 2. EFFECTIVE MANAGEMENT AND SUPERVISION*

2.2.1 Appointment and reappointment terms for directors

**Directors are appointed for a maximum period of four years and may be reappointed for a term of not more than four years at a time, whereby such reappointment will be prepared in a timely manner. Preparation of an appointment or reappointment will take diversity targets into account, as specified in best practice provision 2.1.5.**

The Supervisory Board members believe that appointing directors to four-year terms would impede the proper performance of their role within the company. The directors are entrusted with the task of mapping out the company's long-term strategy and translating that strategy into effective policy. Four-year mandates are not sufficient to adequately fulfil this role at a company like Nedap. Given the aforementioned long-term nature of Nedap's policy, members of the company's Board of Directors are appointed for an indefinite period of time. The annual appraisal interviews also enable the Supervisory Board members to monitor the performance of the directors more effectively than if they were reappointed once every four years.

2.2.4 **The Supervisory Board sees to it that the company has a comprehensive plan for the succession of directors and Supervisory Board members, one that is focused on maintaining a balance on both boards in terms of expertise, experience and diversity. In compiling this plan, the Supervisory Board profile referred to in best practice provision 2.1.1 will be taken into account. The Supervisory Board will also set the term limits in a way that prevents, to the**

**extent possible, a situation where multiple Supervisory Board members step down at the same time. These term limits will be posted on the company's website.**

The Supervisory Board is working on a comprehensive succession plan for both directors and Supervisory Board members. Given the nature of the company, Nedap would like to be able to find suitable successors to members of the Board of Directors from within the company's ranks.

2.3.1 Supervisory Board regulations

**Regulations will be put together specifying the duties of the Supervisory Board and its way of working. In these regulations, the Supervisory Board will include a paragraph dealing with its relations with the Board of Directors, the general meeting and, if applicable, the employee participation body and the executive committee. The regulations will be posted on the company's website.**

In 2018, the Supervisory Board will compile regulations that are aligned with Nedap and its corporate culture, taking into account the required level of flexibility in the Supervisory Board's procedures, the Supervisory Board's relations with the Board of Directors, the general meeting of shareholders and the works council.

2.4.5 Supervisory Board member induction programme

**Each Supervisory Board member will attend an induction programme that is tailored to their specific role. This induction programme will at least cover general financial, social and legal affairs, financial reporting by the company, specific aspects of the company in question and its operations, the corporate culture and - if applicable - relations with the employee participation body, and a Supervisory Board member's responsibilities.**

As a new Supervisory Board member takes office in 2018, a suitable induction programme will be put together and attended, which will address all the matters and aspects listed above.

2.7.2 Rules of procedure

**The Supervisory Board's rules of procedure specify rules governing the way in which the Supervisory Board is to handle conflicts of interests of directors and Supervisory Board members in relation to the company. The rules of procedure set out which kinds of transactions require Supervisory Board approval. The company also sets rules governing the ownership of and transactions in securities by directors and Supervisory Board members other than those issued by the company.**

The rules of procedure that will be compiled in 2018 will address the aspects specified in this provision. The Board of Directors and the Supervisory Board have defined rules governing ownership of and transactions in non-Nedap securities. The acquisition of capital and/or voting interests in another company that might give rise to a potential conflict of interests shall be avoided and, in case of doubt, shall be discussed on the Supervisory Board in advance, which discussion shall be attended by the Board of Directors.

*CHAPTER 3. REMUNERATION*

3.2.3 Severance pay

**Severance pay amounts to a maximum of one year's salary (the 'fixed' part of a director's remuneration).**
**Severance pay will neither be paid if the director resigns early nor in case of imputable acts or omissions on the part of the director.**

For directors under the articles of association appointed before 1/1/2015, severance pay shall be determined in part by their length of service, partly given the permanent nature of their appointment. Directors under the articles of association appointed after 1/1/2015 are subject to the severance pay cap of one annual salary (the "fixed" component of their pay).

3.4.2 Director's contract

**The key elements of a director's contract with the company are published in a convenient list on the company's website after the contract has been signed, and in any case no later than the notice convening the general meeting where appointment of the director will be proposed.**

Nedap complies with this provision in the sense that members of the Board of Directors are appointed by the Supervisory Board after announcing the proposed decision to the general meeting.

*CHAPTER 4. GENERAL MEETING*

4.1.3 Principle

**The agenda of the general meeting will specify which items are for discussion and which will be put to a vote.**
**The following subjects will be addressed as separate agenda items:**

ii. **proposals for the appointment of members of the Board of Directors and Supervisory Board**

Members of the Board of Directors are appointed by the Supervisory Board after announcing the proposed decision to the general meeting. A formal proposal to appoint directors is not submitted to the general meeting of shareholders.

iv. **dividend proposal**

Dividend payment is based directly on the company's strategy and long-term policy. Dividend proposals will therefore not be addressed as an agenda item. Dividend payment will, however, be explicitly included on the agenda as an item for discussion.

4.2.3 Meetings and presentations

**Analyst meetings, presentations to analysts and institutional and other investors, and press conferences will be announced on the company's website and in press releases. Analyst meetings and presentations to investors will not be held shortly before publication of regular financial information. All shareholders are able to watch such meetings and presentations live through webcasting, on their smartphone, or through other channels.**
**After such meetings have ended, presentations will be posted on the company's website.**

Given the limited international spread of Nedap's shareholders and given Nedap's scale, there are no webcasting, smartphone, or other facilities in place as yet to enable live viewing of meetings and presentations. Presentations will be posted on the company's website immediately prior to the meeting at which they will be given, so that all shareholders can read them.

Principle 4.3

Casting votes

**Having as many shareholders as possible take part in decision-making at the general meeting is in the interest of checks and balances at the company. Wherever possible, the company shall give shareholders the opportunity to vote remotely and to communicate with all other shareholders.**

Shareholders can vote by proxy or through voting instructions. Partly given the limited scale of Nedap and the relatively limited spread of Nedap shares in issue, facilities for communication between shareholders are currently not yet provided.

# Information on the company structure and control pursuant to the Decree on Article 10 of the Takeover Directive

*Capital structure*

Nedap's authorised share capital consists of 15,600,000 ordinary shares and 15,600,000 preference shares, all with a nominal value of €0.10 each.

The preference shares are registered, while the ordinary shares are bearer shares. The issued share capital currently amounts to €669,292, consisting of 6,692,920 ordinary shares.

The average number of shares in issue in 2017 was 6,651,543. At year-end 2017, 6,383,546 shares were in issue.

The ordinary shares are listed on Euronext Amsterdam and are freely tradable. They are embodied in a 'global note' that is held in custody by Necigef on behalf of the shareholders.

*Stichting Medewerkerparticipatie Nedap*

Following the foundation of Stichting Medewerkerparticipatie Nedap (subsequently referred to as 'the Stichting') in 2009, employees have been able to acquire depositary receipts for shares in Nedap since 1 January 2010. This ability to become a depositary receipt holder in the company is in line with the entrepreneurship required of employees. It also enables employees to be heard through the Stichting at the general meeting of shareholders when fundamental decisions are being made about Nedap's direction and future. Every year, employees have the option to use either part or all of their profit share to purchase depositary receipts. The depositary receipts are locked up for a period of four years. In addition to a purchase discount of 10% on the depositary receipt price, one bonus depositary receipt is issued for every 4 depositary receipts after 4 years, subject to certain conditions. The full dividend for each depositary receipt is assigned directly to the depositary receipt holder.

At 31 December 2017, the Stichting held 120,153 shares (1.8%) in Nedap for which it had issued depositary receipts to employees.

The Nedap Additional Participation Plan is intended to allow employees to acquire an extra share in the company's profits whenever EBIT (excluding one-off items) grows by over 5% a year. Of all annual growth beyond this 5% threshold, 40% is distributed to employees. Depositary receipts issued under NAPP do not entitle the holder to a 10% purchase discount and bonus depositary receipts. These depositary receipts are, however, subject to a 4-year locked-up period.

*Stichting Preferente Aandelen Nedap*

Since 1973, Nedap has been able to issue preference shares as a protective measure.
This protection can be deployed if a third party intends to gain control of the company by acquiring a decisive interest or otherwise attempts to adversely affect Nedap, without securing the interests of Nedap, its business and all stakeholders in a satisfactory way.

Stichting Preferente Aandelen Nedap (Stichting) was founded for this purpose in 1973. It looks after the interests of Nedap, its business and all stakeholders, providing defence wherever possible against influences which could threaten continuity, independence and identity in conflict with said interests.

Nedap has granted the Stichting the right to acquire preference shares (call option) under which, on request, the Stichting can acquire preference shares up to a maximum equal to the number of ordinary shares in issue, less one, at the time the option is exercised.
The call option obliges Nedap to issue the number of preference shares requested by the Stichting whenever it makes that request. Consequently, no further decision by any corporate body of Nedap is required; the decision was made when the option was granted to the Stichting.

If preference shares are issued, the Stichting has to pay at least 25% of their nominal value in cash.

The board of the Stichting is made up of the following persons:

N.W. Hoek, chairman
J. Lock, secretary
A. P. M. van der Veer-Vergeer
R.P. Voogd
J.P. Bahlmann

The composition of the board is intended to ensure that the interests of all Nedap stakeholders are looked after in the decision-making process to the maximum degree.

According to both the directors of this Stichting and those of Nedap, Stichting Preferente Aandelen is independent from Nedap, as specified in Article 5: 71, subsection 1 under c. of the Dutch Financial

| | February 2018 as % | February 2017 as % |
|---|---|---|
| Add Value Fund N.V. | 3.36 | 3.36 |
| ASR Nederland N.V. | 8.20 | 8.20 |
| Cross Options Beheer B.V. | 14.61 | 15.11 |
| Darlin N.V. | - | 5.19 |
| Decico B.V. | 5.01 | 5.01 |
| Delta Lloyd Deelnemingen Fonds N.V. | - | 13.45 |
| Delta Lloyd N.V. | - | 12.60 |
| Kempen Capital Management N.V. | 6.34 | 6.34 |
| NN Group N.V. | 14.18 | - |
| N.V. Nederlandsche Apparatenfabriek "Nedap" | 4.14 | - |
| Teslin Participaties Coöperatief U.A. | 5.10 | - |
| TKH Group NV | - | 5.06 |
| St. Preferente Aandelen Nedap (potential) | (100.00) | (100.00) |
| Total | 60.94 | 74.32 |

Supervision Act (*Wet op het Financieel Toezicht*).

Preference shares take precedence over ordinary shares when it comes to dividend payment or pay-out of capital paid up on shares, the latter in the event of Nedap’s liquidation.

### *Voting rights*

Every share comes with the entitlement to one vote, and there are no restrictions on voting rights.

Shareholders wishing to attend the general meeting of shareholders are required to notify Nedap of their intention before a date set by Nedap's Board of Directors - which shall not be earlier than the seventh day before the date of the general meeting of shareholders - through their bank or broker where their shares are held in trust, and requesting proof of receipt, which serves as their entrance ticket to the meeting.

### *Notification requirement regarding participations under the Dutch Disclosure of Major Holdings and Capital Interests in Securities-Issuing Institutions Act (WMZ)*

In the context of notifications regarding major holdings and capital interests, the Dutch Authority for the Financial Markets publishes the list of reported interests as included in this chapter.

There are no material transactions between legal or natural persons who hold at least 10% of the shares in Nedap as meant by provision 2.7.5 of the Dutch Corporate Governance Code.

### *Appointment and dismissal of directors*

Nedap is a two-tier board company, which means that directors are appointed by the Supervisory Board.
The Supervisory Board notifies the general meeting of shareholders of the proposed appointment.
The Supervisory Board will not dismiss a director until the general meeting of shareholders has been able to decide on the proposed dismissal.

### *Appointment and dismissal of Supervisory Board members*

Supervisory Board members are appointed by the general meeting of shareholders following a proposal by the Supervisory Board, generally for a period of four years. This proposal is made on the basis of a profile drawn up by the Supervisory Board. The general meeting of shareholders and the works council may recommend people as Supervisory Board members. The works council has an enhanced right of nomination for one member of the Supervisory Board.

The general meeting of shareholders may reject a nomination by an absolute majority of the votes cast representing at least one third of the issued share capital.

The Enterprise Section of the Amsterdam Court of Appeal may, on application, dismiss a Supervisory Board member for neglect of duty, other compelling reasons or due to significant changes in circumstances such that the company cannot reasonably be expected to let the Supervisory Board member remain in office. The application may be submitted by the company, represented by the Supervisory Board, or a representative designated by the general meeting of shareholders or the works council.
The general meeting of shareholders may pass a resolution of no confidence in the entire Supervisory Board by an absolute majority of the votes cast representing at least one third of the issued share capital.
Such a resolution brings about the immediate dismissal of the members of the Supervisory Board.

### *Authority of the Board of Directors to issue shares and acquire the company's own shares*

The Board of Directors is only authorised to issue shares if the general meeting of shareholders

appoints it as the body authorised to issue shares. At the general meeting of shareholders of 6 April 2017, the Board of Directors was appointed the body authorised to issue ordinary shares in the capital of Nedap N.V. and/or to grant rights to subscribe to shares in the capital of Nedap N.V.
The Board of Directors' authority to issue shares is limited to ordinary shares with a combined value of a maximum of 10% of the total issued share capital at the time of issue.
This requested authorisation has been granted for a period of 18 months, starting on 6 April 2017.

A resolution by the general meeting of shareholders to issue shares or to appoint another body as the body authorised to issue shares, or the withdrawal of a resolution to appoint can only be passed on a joint proposal of the Supervisory Board and the Board of Directors.
A resolution to issue preference shares by a body other than the general meeting of shareholders is always subject to co-operation of the Supervisory Board in each specific case.
Preferential rights can be limited or excluded by the body appointed to decide on share issues.
The general meeting of shareholders of 6 April 2017 has appointed the Board of Directors as the body authorised to limit or exclude preferential rights in issuing ordinary shares in the capital of Nedap N.V., including the granting of rights to subscribe to ordinary shares in the capital of Nedap N.V. This requested authorisation has been granted for a period of 18 months, starting on 6 April 2017.

Nedap may only acquire its own fully paid-up shares for no consideration. Acquisition other than for no consideration is only possible if:

* shareholders' equity –/– the acquisition price is not less than the paid up and called up part of the capital plus the reserves that must be maintained by law or under the articles of association;
* the nominal amount of the company's own shares is no more than 50% of the issued share capital; and
* the general meeting of shareholders has appropriately authorised the Board of Directors. This authorisation is not required to acquire the company's own shares or depositary receipts in order to transfer them to employees under an applicable plan.

The general meeting of shareholders of 6 April 2017 has authorised the Board of Directors, in accordance with Article 15 of the company's articles of association, following approval by the Supervisory Board and without prejudice to the provisions of Article 2:98 of the Dutch Civil Code, to acquire ordinary shares up to a maximum of 10% of the total issued share capital of Nedap N.V., as such that after such an acquisition, Nedap N.V. or one or several of its subsidiaries can never hold more than 10% of the total issued share capital of ordinary shares in Nedap N.V. (for their own account).
The ordinary shares can be acquired through purchase on the stock market or otherwise at a price that lies between the nominal value of the ordinary shares and 110% of the average closing price of the ordinary shares on the NYSE Euronext Amsterdam N.V. stock exchange over the five consecutive trading days prior to the day of purchase.
This requested authorisation has been granted for a period of 18 months, starting on 6 April 2017.

*Amendment of the articles of association*
Nedap's articles of association may be amended by a resolution of the general meeting of shareholders after prior approval of such resolution by the Supervisory Board and Board of Directors.

*Restrictive agreements with shareholders*
To the best of Nedap's knowledge, its shareholders are not a party to an agreement that could lead to restrictions on trading in Nedap shares or on voting rights.

*Significant agreements in the event of a take-over bid*

The standby roll-over credit agreement (€14 million) that Nedap has entered into with the bank includes a provision under which the bank can demand early repayment of the loan if there is a significant change in control over Nedap's activities.

It is not unusual for other long-term alliances to which Nedap is a party to also include the possibility of terminating the agreement with immediate effect in the event of a change of control. In relation to the overall scope, these clauses are not regarded as significant as defined in the Decree on Article 10 of the Takeover Directive.

Nedap has not entered into agreements with directors or other employees under which personal rights to compensation can be derived upon termination of their employment after the settlement of a take-over bid for Nedap shares.

## *Provisions of the Articles of Association concerning special rights*

Below are some of the special rights granted to the Supervisory Board and the Board of Directors:

Art. 10:
Proposal to issue new shares.

Art. 11:
Proposal to restrict or exclude preferential rights.

Art. 18:
Determination of the number of members of the Board of Directors.

Art. 23:
Proposal to set the remuneration policy for the Board of Directors.
Determination of the remuneration and other terms of employment for each member of the Board of Directors.
Proposal to remunerate the Board of Directors in the form of shares or rights to acquire shares.

Art. 24:
Determination of the number of members of the Supervisory Board.
The Board must comprise at least three members.

Art. 25:
Nomination for appointment to the Supervisory Board.

## Provisions of the Articles of Association concerning approval of resolutions by the Board of Directors in accordance with Article 20

Paragraph 1:
Without prejudice to provisions elsewhere in the articles of association, the following resolutions by the Board of Directors shall be subject to the approval of the Supervisory Board:

a. issue and acquisition of shares in and debt instruments payable by the company or of debt instruments payable by a limited partnership or a commercial partnership of which the company is a fully liable partner;
b. cooperation in the issue of depositary receipts of shares;
c. application for the listing of the debt instruments or depositary receipts referred to in a and b on a regulated market or in a multilateral trading facility, as referred to in Article 1:1 of the Dutch Financial Supervision Act or in a system similar to a regulated market or multilateral trading facility in a non-member state or an application for the withdrawal of such listing;
d. entry into or termination of a long-term partnership by the company or a dependent company with another legal entity or company, either as a fully liable partner in a limited partnership or a commercial partnership, provided this partnership or termination thereof are of major importance to the company;
e. acquisition of a participation with a value of at least a quarter of the amount of the issued share capital plus the reserves as recognised on the company's balance sheet with explanatory notes, by the company or a dependent company in the capital of another company, as well as a decision to significantly increase or decrease such a participation;
f. investments requiring an amount that equals at least a quarter of the issued share capital plus the company's reserves as per its balance sheet with explanatory notes;
g. a proposal to amend the articles of association;
h. a proposal to terminate the company;
i. filing for bankruptcy and suspension of payments;
j. a resolution to terminate the employment contracts of a substantial number of employees of the company or a dependent company simultaneously or within a short period of time;
k. a resolution to implement radical changes in the working conditions of a substantial number of employees of the company or a dependent company;
l. a proposal to effect a reduction in the issued share capital;
m. a proposal to legally merge or divide the company within the meaning of Part 7 of Book 2 of the Dutch Civil Code.

Paragraph 2:
The following resolutions by the Board of Directors are also subject to the approval of the Supervisory Board:

a. setting the company's operational and financial targets, the strategy intended to lead to achievement of those objectives and the preconditions used in formulating this strategy;
b. appointment of officials as specified in Article 19, paragraph 2 and determination of their titles;
c. a resolution to engage in legal proceedings, with the exception of taking precautionary measures or measures which cannot be delayed;
d. acquisition, alienation, or encumbering of property subject to registration;
e. entering into a contract of suretyship;
f. taking out loans and credit agreements. If a credit agreement has been entered into, the Supervisory Board's approval is not required for usage of this facility;
g. a resolution to enter into a merger, or to acquire, wind up or dispose of a participation;
h. a resolution to found or close down a branch.

Paragraph 3:
The Supervisory Board may determine that a resolution as referred to in paragraph 2 above will not require its approval if the interest involved does not exceed a value to be determined by the Supervisory Board.

Paragraph 4:
The Board of Directors requires the approval of the general meeting for decisions involving a significant change in the identity or nature of the company or its business undertakings, including:

a. transfer of the company, or almost all of it, to a third party;
b. entering into or terminating a long-term partnership by the company or a subsidiary company with another legal entity or company, either as a fully liable partner in a limited commercial partnership, provided this partnership or termination thereof are of major importance to the company;
c. the acquisition or disposal by the company or a subsidiary of a participation in the capital of a company to the value of at least one third of the assets according to the balance sheet with notes or, if the company prepares a consolidated balance sheet, according to the consolidated balance sheet with notes, as stated in the company's most recently adopted financial statements.

Paragraph 5:
The absence of the approval of the Supervisory Board or the general meeting for a decision as intended in this article does not impair the representative authority of the Board of Directors or its members, except in relation to a decision as referred to in paragraph 1(l) and paragraph 2(a).

# Colophon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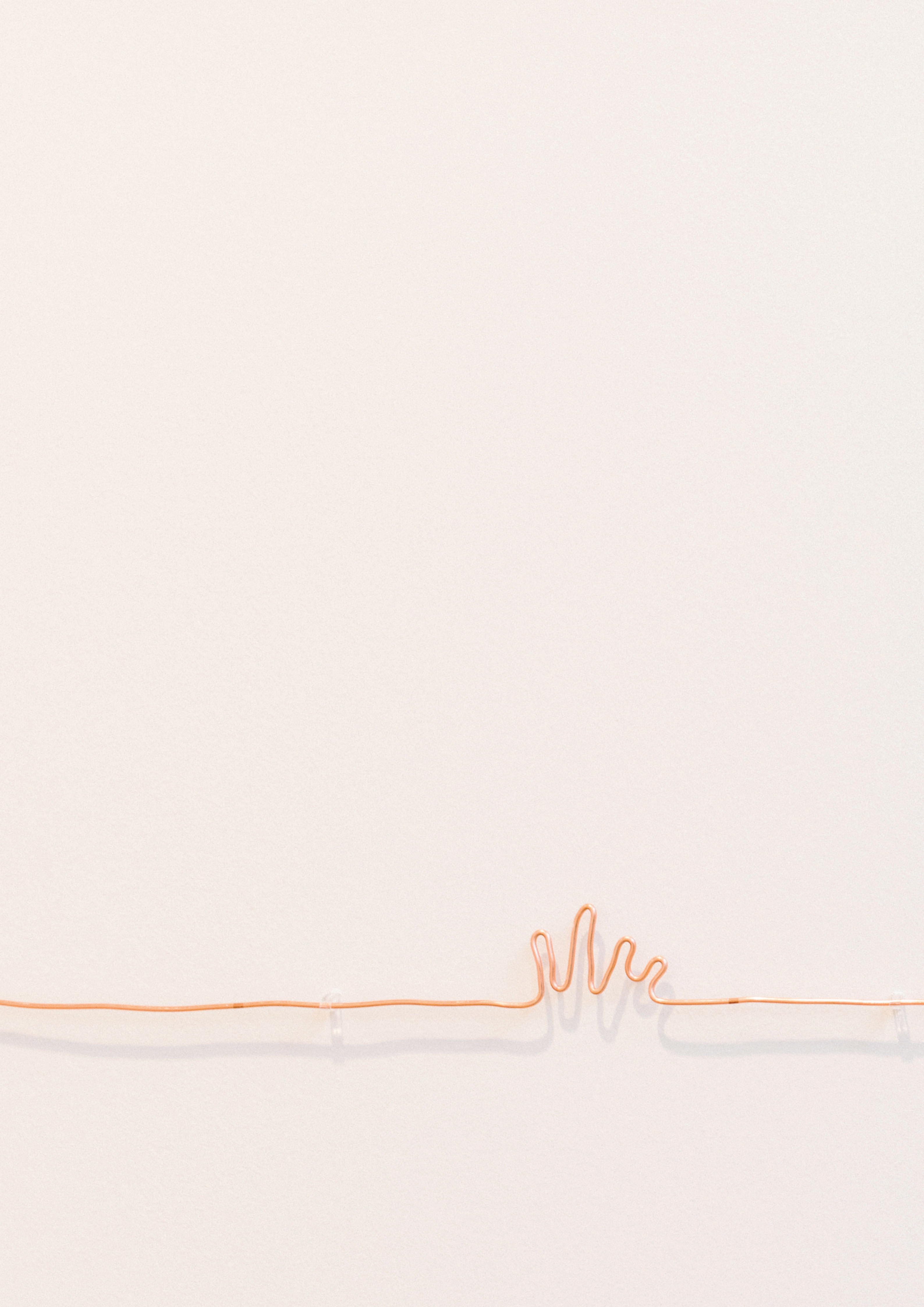

*See you in the* **eighty-**
**nin**
**th** *financial year 2018*


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