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

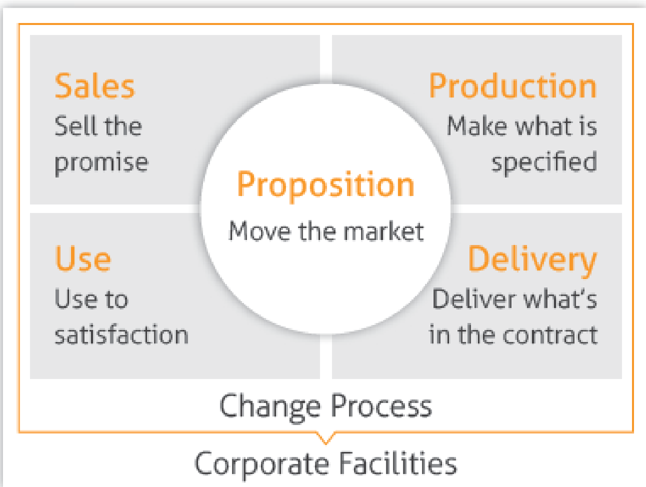
COSO Risk Management Framework and amplification of risk management capacity. The Nedap COSO Risk Management Framework is based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) standard, which was developed in 2002 and updated in 2013. In a nutshell, COSO has identified 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 reorganization
   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.