Report of
N.V. Nederlandsche
Apparatenfabriek
"Nedap" on its

1st half-year

financial year 2017

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directors' 1st half-yearly report 2017

The first six months of 2017 saw Nedap's revenue rise by 8% to €99.0 million (€92.0 million in the same period of 2016). Operating profit excluding one-off items was up 8% to €7.9 million (€7.3 million in the same period of 2016). Profits amounted to €4.8 million, a 17% drop (€5.8 million in the same period of 2016), which is a result of one-off items related to the supply chain reorganisation. Earnings per share came in at €0.72 (€0.87 in the same period of 2016).

The Healthcare, Identification Systems, Livestock Management, Retail, Security Management and Staffing Solutions business units and the Nsecure subsidiary all helped to achieve this growth, while the Library Solutions and Light Controls business units saw their revenue drop. The business unit Energy Systems – whose activities were phased out as planned in 2016 – did not generate any revenue.

Supply chain reorganisation

In line with the strategy of focusing on activities with high added value, Nedap has embarked on a transition that will see most of its production and logistics operations outsourced to strategic partners. Many Nedap employees are involved in the supply chain reorganisation. These activities have peaked in recent months, creating one-off costs of €2.0 million in the first six months of 2017 (€0.4 million in the same period of 2016).

The first production departments have now closed and the employees who worked there have left the company. Production activities are scheduled to be phased out in late 2017. All of the employees due to lose their jobs as a result have now been given notice.

Buffer inventories have been built up to ensure the transition to the production partners runs as smoothly as possible. Since a significant amount of the current revenue was achieved by products from these buffer inventories, and because the costs Nedap's production companies had not yet been phased out during the first six months of 2017, the cost savings brought about by the outsourcing are limited at the moment.

One of the strategic partners encountered operational problems and a scarcity of electronics components, which delayed fulfilment of some orders. In order to tackle these delivery problems, production of the items in question has been assigned to another party. The order fulfilment problems led to higher one-off outsourcing costs than expected. Please refer to the 'Financial highlights' section for more information on these one-off costs. The delivery problems have not yet been entirely resolved, and are likely to continue to generate additional costs in the last six months of the year.

Despite these challenges, the strategic assumptions underlying the decision to reorganise the supply chain remain valid. The financial benefits of the outsourcing are expected to be fully visible in 2018, and they will already be partially visible in the last six months of 2017.

Business unit developments

The **Healthcare** business unit (automation of administrative tasks for healthcare professionals) achieved a significant growth in revenue in the first six months of 2017. More and more elderly care institutions are turning to Nedap's software services for support in their everyday activities, while the first organisations in the mental healthcare and mentally handicapped markets have also started using Nedap solutions. Although these two markets still have a limited amount of revenue, they have excellent potential for growth.

The **Identification Systems** business unit (vehicle and driver identification products and wireless parking systems) posted a sound increase in revenue over the first six months of the year, a result which all of the unit's propositions helped to achieve.

Revenue posted by the **Library Solutions** business unit (RFID systems for libraries) dropped over the first six months of 2017. This business unit is working to refine its product range and ensure the offering is more in keeping with the opportunities available on the market.

Over the first six months of 2017, revenue posted by the **Light Controls** business unit (power electronics and control systems for the lighting industry) was down on the same period of 2016, mostly due to the phasing out of QL and HID products, which commenced in 2016.
Steady progress is being made with the Luxon proposition (light management in the form of software services) in North America and Europe. May saw the launch of the Luxon IoT node, which is a key breakthrough on the lighting market, ensuring that connected lighting becomes increasingly appealing.
Revenue generated by the UV propositions remained stable, while the expected growth in the ballast water treatment segment failed to materialise yet, due to uncertainty about the implementation of new legislation.

Revenue posted by the **Livestock Management** business unit (automation of livestock management processes based on identification of individual animals) was up on 2016. The increase in milk prices and the reinforcement of the business unit's competitive position enabled revenue growth in the dairy sector, while the pig farming sector maintained its strong revenue from the first six months of 2016.

The **Retail** business unit (security, management and information systems for the retail sector) also posted increased revenue. Following successful implementations for several retailers, interest in the unit's stock management solutions is growing significantly. Revenue on the North American market is also starting to contribute to the business unit's growth.

The **Security Management** business unit (systems for access control and security) is benefiting from contracts landed with major European customers in recent years, which has put revenue above that achieved in the first six months of 2016.

The **Staffing Solutions** business unit (digitised work schedules and timesheet processing) also posted higher revenue. A fully redesigned version of the unit's flagship software system PEP Flex was launched in May, providing even greater ease of use and more powerful functionality for temping agencies and companies that use temporary/contract workers.

The **Energy Systems** business unit's activities were phased out in 2016 and no longer generate revenue. A small group of employees is focusing on complying with existing warranty and support commitments.

Revenue posted by the **Nsecure** subsidiary (innovative security solution services) was up on the first six months of 2016.

Financial highlights

The structure of the statement of profit or loss was updated in the 2016 annual report, and this new structure is also used in the present half-yearly report. The comparative figures for 2016 have been changed to bring them in line with the new definitions.

Nedap's revenue was up 8% over the first six months of 2017 to €99.0 million (€92.0 million in the same period of 2016).

Added value (revenue less cost of materials, outsourced work and inventory movements) amounted to €61.3 million, i.e. 62% of revenue (€58.2 million, or 63% of revenue, in the same period of 2016). The drop in the percentage was mainly caused by a loss of €1.1 million resulting from losses at Nedap production companies, due to a volume reduction caused by the supply chain reorganisation.

Employee costs were up €3.1 million to €36.6 million, mainly because additional software developers and sales staff were hired. This line also includes an amount of €0.5 million for one-off costs relating to the supply chain reorganisation. Nedap had 775 employees as of 30 June 2017 – 12 more than on 30 June 2016 (775 at the end of 2016).

Other operating costs were up €1.6 million to €14.7 million, primarily as a result of increased marketing and sales costs. This line also includes an amount of €0.4 million for one-off costs relating to the supply chain reorganisation.
Depreciation in the first six months of 2017 was down €0.2 million on 2016, while amortisation dropped by €0.3 million.

On balance, the supply chain reorganisation has created one-off costs of €2.0 million in the first six months of 2017 (€0.4 million in the same period of 2016). The operating profit excluding these one-off costs amounts to €7.9 million, which is 8% of revenue (€7.3 million or 8% of revenue in the same period of 2016).
The operating profit including one-off costs is €5.9 million, or 6% of revenue (€7.0 million or 8% of revenue in the same period of 2016).

Amounting to €0.1 million, net financing costs were at the same level as in the first six months of 2016. Our associate Nedap France S.A.S.'s share of profit dropped by €0.1 million to €0.1 million.
Taxation in the first six months of the year amounted to €1.1 million (€1.2 million in the same period of 2016). Result dropped by 17% to €4.8 million in the first six months of 2017, which amounts to 5% of revenue (€5.8 million or 6% of revenue in the same period of 2016).

An 'Assets held for sale' line amounting to €0.2 million has been added to the balance sheet. It relates to subsidiary Inventi B.V.'s assets, which will be sold over the next few months as part of the supply chain reorganisation.

The balance sheet total was up €8.9 million on year-end 2016 to €125.5 million. This growth is largely explained by the trade and other receivables item, which rose by €7.2 million following sound sales figures in June.

As stated previously, a large inventory is consciously being maintained at this time in connection with the supply chain reorganisation.

Short-term provisions decreased by €3.2 million, mainly because all employees due to lose their jobs as a result of the supply chain reorganisation have now been given notice. The resulting obligations have been added to the 'Trade liabilities and other payables' item.

The current accounts with the banks item is up €10.4 million on year-end 2016, mainly due to the dividend payment of €9.4 million.
The overall bank debt was €36.5 million as of 30 June, which is well within the available headroom of €47.7 million.
The solvency ratio (shareholders' equity divided by the balance sheet total) was 41% (43% on 30 June 2016).

Outlook

The Board of Directors is positive about the developments over the last few months and expects revenue in the last six months of 2017 to be up on the same period in 2016, unforeseen circumstances notwithstanding. The size of the growth depends on developments on certain markets and orders from individual customers, as well as the general economic climate. The result in the last six months of the year will not only be affected by these factors, but also by the progress and impact of the supply chain reorganisation.

The main risks are described in the Corporate Governance section of the 2016 annual report.

The interim report on the last six months of 2017 will be published on 16 November 2017.

Groenlo, 27 July 2017

The Board of Management:

R.M. Wegman
E. Urff

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half-yearly financial statements 2017

Half-yearly Financial Statements 2017

Consolidated balance sheet

(€ x 1.000)

		2017 half-year	2016 year-end
Assets			
Fixed assets	3,035		3,247
Intangible fixed assets	40,537		40,692
Tangible fixed assets	3,625		3,849
Financial fixed assets	303		272
Deferred tax assets			
		47,500	48,060
Current assets			
Inventories	30,012		29,397
Income tax receivable	1,731		842
Trade and other receivables	43,256		36,013
Cash and cash equivalents	2,773		2,329
		77,772	68,581
Assets held for sale			
		221	-
		125,493	116,641
Equity and liabilities			
Group equity			
Shareholders' equity		51,212	55,851
Non-current liabilities			
Borrowings	14,887		14,953
Derivatives	74		92
Employee benefits	758		765
Provisions	785		994
Deferred tax liabilities	451		619
	16,955		17,423
Current liabilities			
Borrowings	125		127
Derivatives	31		31
Employee benefits	53		23
Provisions	1,615		4,824
Bank overdrafts	21,427		11,010
Income tax payable	303		230
Taxation and social security contributions	4,269		2,848
Trade and other payables	29,503		24,274
	57,326		43,367
Total liabilities		74,281	60,790
		125,493	116,641

Consolidated statement of profit or loss

(€ x 1,000)

		2017 half-year	2016 half-year
Revenue		98,992	91,979
Cost of materials and outsourced work	37,056		36,633
Inventory movement of finished goods and work in progress	637		-2,888
		37,693	33,745
Added value		61,299	58,234
Personnel costs	36,596		33,545
Amortisation	481		735
Depreciation	3,655		3,889
Other operating costs	14,672		13,090
		55,404	51,259
Operating result		5,895	6,975
Financing income	35		35
Financing costs	-152		-181
Value movements in derivatives	18		20
Net financing costs		-99	-126
Associate share of result (after income tax)		132	179
Result before taxation		5,928	7,028
Taxation		1,117	1,235
Result for the financial half-year		4,811	5,793
Result attributable to shareholders of Nedap N.V.		4,811	5,813
Result attributable to minority interests		-	-20
Result for the financial half-year		4,811	5,793
Average number of shares in issue		6,692,920	6,692,920
Earnings per ordinary share (in €)		0.72	0.87
Diluted earnings per ordinary share (in €)		0.72	0.87

Consolidated statement of comprehensive income
(€ x 1,000)

		2017 half-year	2016 half-year
Result for the financial half-year		4,811	5,793
Unrealised profit/loss			
Items that will (or may) be reclassified to profit or loss after initial recognition:			
Currency translation differences	-63		-56
Unrealised profit/loss over the reporting period after taxation		-63	-56
Total realised and unrealised profit/loss for the financial half-year		4,748	5,737
Total realised and unrealised profit/loss attributable to:			
Nedap N.V. shareholders		4,748	5,757
Minority interests		-	-20
Total comprehensive income over the 1st half-year		4,748	5,737

Consolidated cash flow statement

(€ x 1,000)

	2017 half-year		2016 half-year
Cash flow from operating activities			
Result for the financial half-year		4,811	5,793
Adjustments for:			
Depreciation and amortisation including impairment	4,136		4,624
Book profit/loss on sale of tangible fixed assets	-210		-6
Associate share of profit	-132		-179
Exchange differences for participations	4		27
Net financing costs	99		126
Income taxes	1,117		1,235
		5,014	5,827
Movements in trade and other receivables	-7,263		-5,859
Movements in inventories	-615		-1,293
Movements in taxes and social security contributions	1,421		715
Movements in trade and other payables	4,923		1,513
Movements in employee benefits	23		9
Movements in provisions	-3,418		-837
		-4,929	-5,752
Interest paid	-131		-204
Interest received	55		39
Income tax paid	-2,132		-2,563
		-2,208	-2,728
Cash flow from operating activities		2,688	3,140
Cash flow from investing activities			
Investments in tangible fixed assets	-3,768		-3,429
Investments in intangible fixed assets	-268		-113
Proceeds from sale of tangible fixed assets	541		169
Dividend received from associate	356		629
		-3,139	-2,744
Cash flow from financing activities			
Long-term borrowings drawn	-		63
Repayments on long-term borrowings	-68		-123
Repayments on loans receivable	-		19
Dividend paid to shareholders of Nedap N.V.	-9,370		-8,567
Sale of own shares	740		409
Acquisition of own shares	-757		-
		-9,455	-8,199
Movements in cash and cash equivalents and bank overdrafts		-9,906	-7,803
Cash and cash equivalents and bank overdrafts at 1 January		-8,681	-2,487
Exchange differences for cash and cash equivalents and bank overdrafts		-67	-83
Cash and cash equivalents and bank overdrafts at 30 June		-18,654	-10,373

Consolidated statement of changes in equity

(€ x 1,000)

	share capital	statutory reserves	reserves	profit attributable to share-holders	equity attributable to share-holders	minority-interest	total shareholders equity
Balance as at 01/01/2016	669	4,187	43,357	4,671	52,884	96	52,980
Realised result for the 1st half-year				5,813	5,813	-20	5,793
Unrealised result for the 1st half-year		-56			-56		-56
Result for the 1st half-year	-	-56	-	5,813	5,757	-20	5,737
Dividend				-8,567	-8,567	-	-8,567
Appropriation of profit		-689	-3,207	3,896	-		-
Movements in own shares			409		409		409
Balance as at 30/06/2016	669	3,442	40,559	5,813	50,483	76	50,559
Balance as at 01/01/2017	669	2,358	42,045	10,779	55,851	-	55,851
Realised result for the 1st half-year				4,811	4,811		4.811
Unrealised result for the 1st half-year		-63			-63		-63
Result for the 1st half-year	-	-63	-	4,811	4,748	-	4,748
Dividend				-9,370	-9,370	-	-9,370
Appropriation of profit		-326	1,735	-1,409	-		-
Movements in own shares			-17		-17		-17
Balance as at 30/06/2017	669	1,969	43,763	4,811	51,212	-	51,212

At 30/6/2017, 5,206 of its own shares were repurchased (6,884 at 30/6/2016) that have yet to be transferred to employees under the employee participation plan.

Statutory reserves can be broken down as follows:

	30/6/2017	30/6/2016
Capitalised development costs	**1,870**	2,900
Profit from participations not freely distributable	**342**	717
Exchange differences	**-243**	-175
Total	**1,969**	3,442

Notes to the half-yearly Financial Statements 2017
(€ x 1,000, unless stated otherwise)

Accounting policies

General

N.V. Nederlandsche Apparatenfabriek "Nedap" is registered in Groenlo, the Netherlands. The interim consolidated half-yearly 2017 report of the company and its subsidiaries, who together form the Group, referred to below as Nedap.

Nedap develops and supplies smart technological solutions for socially relevant themes, including sufficient food, clean drinking water, security and healthcare.

It concentrates on market segments where its technological know-how, market knowledge and knowledge of the customer`s business process can create added value for the costumer. These market segments are approached through the company`s own sales channels as well as through third parties.

The 2016 consolidated financial statements of Nedap are available as request at info@nedap.com or per telephone +31 (0)544 471111 or can be downloaded from our website www.nedap.com.

Statement of accordance

This consolidated interim report has been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 Interim Financial Reporting. It does not contain all information that is required for full financial statements and has to be read in combination with the 2016 consolidated financial statement of Nedap.

This condensed consolidated interim report was drawn up by the Board Management on July 27th 2017.

Relevant accounting policies

The accounting policies and calculation methods applied by Nedap in this consolidated interim report are equal to the policies and calculation methods applied by Nedap in the consolidated financial statements for 2016.

Estimates

Interim 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 expenses. The actual outcomes may differ from these estimates in preparing this consolidated interim report, the relevant judgements, made by the management and used in applying the accounting policies of Nedap and the relevant sources as in its consolidated financial statements 2016. Estimates relate primarily and intangible assets, employee benefits, other receivables and provisions. In the context of the reorganisation of the supply chain, estimates were also made in relation to the measurement of inventories and the restructuring provision.

Financial risk management

The objectives and measurements of Nedap in the field of financial risk management correspond with the objectives and measurements as stated in the consolidates financial statements 2016.

Income taxes

Income taxes are determined as the product of the weighted average of the tax rate expected for the year under review and the interim profit before taxes.

Related parties transactions

Nedap`s related parties are the associate Nedap France S.A.S., Stichting Preferente Aandelen Nedap, the members of the Supervisory Board and the Board of Management. With the associate normal business transactions similar to those applicable to transactions with third parties. There were no transactions with Stichting Preferente Aandelen Nedap. Only normal transactions took place with the members of the Supervisory Board and the Board of Management.

As yet unimplemented standards and interpretations

During the first six months of 2017, Nedap evaluated the IFRS 9, IFRS 15 and IFRS 16 standards and interpretations, which have not been implemented as yet. The notes on pages 58 and 59 of the 2016 financial statements remain fully applicable.

Audit

The figures in this half-yearly report have not been audited by an external accountant.

Interpretation

This is a translation of the original Dutch interim report. In the event of any conflict of interpretation the Dutch text will prevail.

Statement

Statement pursuant to Section 5:25d of the Financial Supervision Act

To the best of our knowledge,

1. The half-yearly financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Nedap N.V. and the undertakings included in the consolidation taken as a whole; and

2. The half-yearly report of the Board of Management includes a fair review of the information as requested under Section 5:25d (and) of the Financial Supervision Act.

Groenlo, 27 July 2017

The Board of Management:

R.M. Wegman
E. Urff

Profile Nedap

Nedap has an open, innovative and creative culture oriented towards development and entrepreneurship.

Nedap develops and supplies intelligent technological solutions relating to socially relevant themes, including sufficient food, clean drinking water, security and healthcare. It concentrates on market segments where its technological know-how, market knowledge of the customer's business process can create added value for the customer. These market segments are approached through the company`s own sales channels as well as through third parties.

The company is organized into market groups. Each group develops and delivers solutions and possesses knowledge in the fields of technology, markets and customer business processes. Staff are challenged to display entrepreneurship, take responsibility and develop their talents.

The technologies used for the various solutions are closely related so that the market groups use and share each other`s technological know-how, products systems and market experience.

Particular attention is devoted to creating distinctive value in the products and systems to be sold, as well as associated services. The professionalisation and internationalisation of sales are also high priorities.

The main sales market is still Europe, but sales outside Europe, including North America and Asia, are growing.

Nedap's primary financial target is sustainable value creation resulting in increased cash flow-generating ability on short and long term.

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

1. High and growing added value 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 financial structure. Given the organisation's increased capital efficiency and scalability, we expect high payout ratios over the coming years.

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