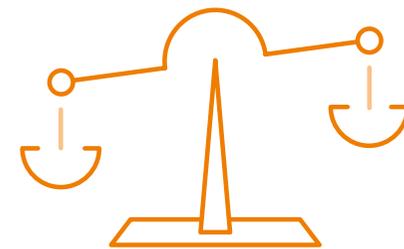


# RISKS

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**Risk management is an important part of Ordina's corporate governance, of our Business Management Framework (our digital management system) and our business principles.**

## RISK MANAGEMENT

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Ordina's risk management recognises strategic, financial, operational and compliance risks.

Risk management is an integral part of our business planning and review cycle. As part of its business planning cycle, Ordina conducts a bottom-up risk assessment of its operations in the Netherlands and Belgium/Luxembourg. In addition to this, the management also conducts a top-down risk assessment. We assess all relevant risks for likelihood and impact according to a predetermined structure, and we weigh the risks on that basis. We include the findings of these assessments in our regular reports, which are subsequently discussed during regular reviews in the Executive Committee, and with the Supervisory Board.

On the basis of the assessment of likelihood and impact, we also determine Ordina's risk appetite level.

The reasons risks may be qualified as unacceptable are:

- Any danger to our continuity.
- Any danger to our reputation in the fields of compliance and integrity.
- Any material impact on revenues and, more specifically, on our profitability.

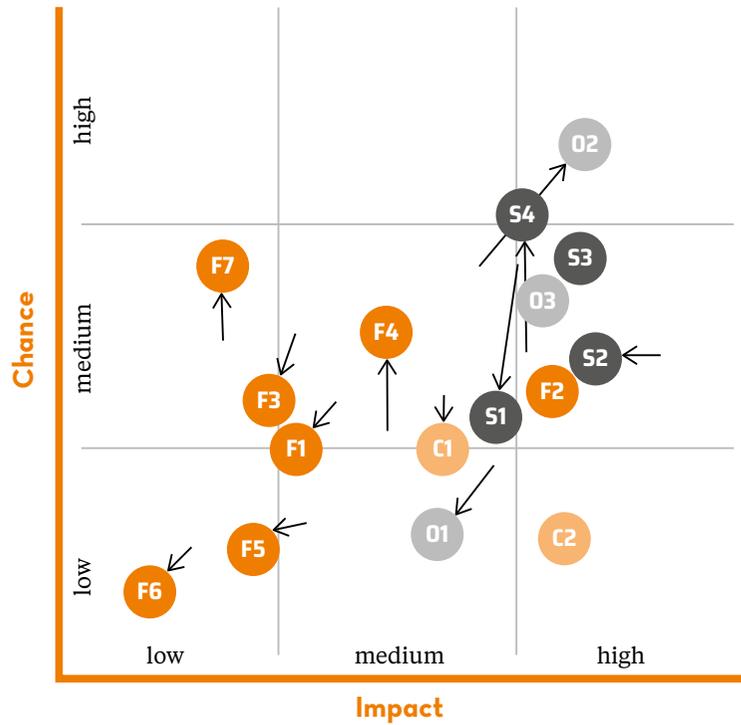
In addition, we have also determined a risk management ambition per risk on the basis of the extent to which we can influence a risk and the developments relating to each risk. In this context, we also assessed any opportunities that may be associated with a risk, which might mean that fully mitigating a risk may not always be desirable. The measures we take are designed to move the risks towards the ambition level we have set. The rate at which we achieve this ambition depends on the risk and market developments.

The risks included in this annual report are directly related to market developments, our market positioning and our business operations.

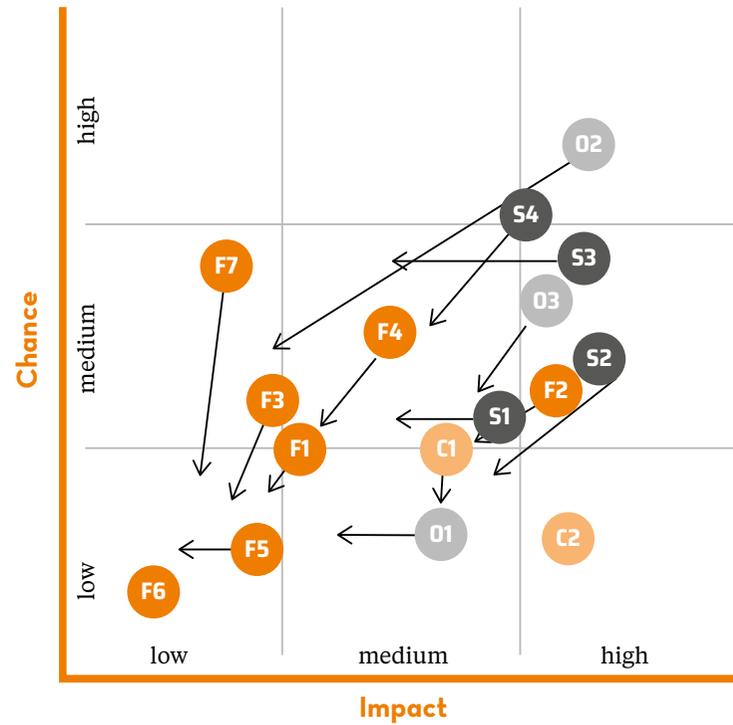
The heatmap on page 74 shows the risks on the left, positioned in line with our assessment of said risks at the end of the year. This heatmap shows which risks have the largest impact on our operations, when incurred. The movement of the risk compared to the previous year (indicated by the arrow) shows how this risk occurred during this year. On the right, the direction of the arrow shows our ambitions relating to the risks. In addition, we describe this ambition for each risk, the developments in the past year and the measures we are taking to limit the likelihood of that risk materialising or to mitigate the impact of same.



Current estimate (year-end 2017)



Ambition direction



- The dot marks the current position
- ➔ The arrow indicates the development in the past year

- The dot marks the current position
- ➔ The arrow indicates the direction of our ambition

- **Strategic**
- S1 Sensitivity to economic cycles
- S2 Ordina's relative scale
- S3 Consequences of threats or acts of terrorism
- S4 Rise of small, specialist companies

- **Financial**
- F1 Liquidity risk
- F2 Pressure on consultancy rates
- F3 Credit risk
- F4 Impairment of goodwill
- F5 Valuation projects in progress
- F6 Foreign operations
- F7 Valuation deferred tax assets

- **Operational**
- O1 Growing risk profile client projects
- O2 Scarcity on the employment market
- O3 Data security and legislation

- **Compliance**
- C1 Failure to comply with laws and regulations
- C2 Reputation damage

## STRATEGIC RISKS

Strategic risks may have an impact on the achievability of Ordina's strategic objectives. We explain the main strategic risks below.

### Sensitivity to economic cycles (S1)

Economic fluctuations, due to factors such as an unstable (geo) political situation, in combination with a relatively inflexible cost structure, will have a direct impact on our results.

**Development:** the economic recovery and the high market demand for IT services have reduced the chance of this risk occurring. Due to the absence of revenue growth, the impact of this risk has remained the same.

**Measure:** we aim to create more added value in our services by focusing on our five business propositions, plus we look to forge sustainable partnerships to maintain and strengthen our client relationships.

In addition, we are aiming to achieve a manageable cost structure, a flexible pool of temporary staff and to increase revenues from long-term contracts. Revenue is also spread across various markets (public sector, financial services, industry and healthcare).

**Ambition:** our measures are aimed at reducing the impact of this risk to the medium end of the scale. We do not consider a reduction to a low impact and/or low likelihood feasible and do not consider mitigating this risk to low desirable, as our services are by their nature sensitive to economic fluctuations, which also creates commercial opportunities.

### Ordina's relative scale (S2)

Some (potential) clients occasionally have concerns or doubts regarding Ordina's scale in relation to the scale of the client or the contract. On the other hand, Ordina could quickly become dependent on a specific client when revenues from that client increase.

**Development:** this risk is easier to mitigate due to improved market conditions, which has resulted in a slight reduction of the impact.

**Measure:** we are targeting growth in all our markets and focus on clients that fit Ordina's profile. We are also looking to close more long-term contracts.

**Ambition:** we strive to reduce both the impact and likelihood of this risk to the medium end of the scale in terms of likelihood and impact. The focus on our key accounts means that we believe a certain level of dependence is acceptable.

### Consequences of threats or acts of terrorism (S3)

It is possible that (the threat of) acts of terror may result in restrictions on travel, that particular locations may be inaccessible for longer periods of time, or that the operations of clients are brought to a standstill temporarily. This has direct implications for our services.

**Development:** this risk is unchanged.

**Measure:** we aim for maximum flexibility and location-independence in our work. This does not only apply to our own infrastructure, as we strive proactively to reach agreements with our clients on this front.

**Ambition:** unfortunately, we cannot influence the likelihood of this risk arising. However, we aim to reduce the impact of this risk considerably, and consider a medium impact a feasible target in that respect.

### Rise of small, specialist companies (S4)

We are seeing a steady increase in the number of small, specialist companies coming on the market, as competitors in terms of both our services and on the labour market. The reason for this is the decline in demand for all-encompassing projects, and client demand for specific sub-solutions. In addition, these companies are doing a lot to be attractive employers for their staff.

**Development:** the likelihood of this risk arising has increased considerably due to the current market conditions, both on the sales market and the labour market.

**Measure:** we are working on a more sharply defined market positioning, which gives clients and potential employees a much clearer idea of what we stand for and why we can provide an attractive working environment for existing and future employees.

**Ambition:** we strive to reduce the impact of this risk to the medium end of the scale. We consider it unlikely that we would be able to reduce either the likelihood or the impact of this risk to low: we operate in a competitive market, which means this risk also comes with commercial opportunities.

## FINANCIAL RISKS

Financial risks are risks related to financing, the financial results, the financial stability of partners in the chain and fiscal risks. The main financial risks are as follows:

### Liquidity risk (F1)

The increasingly critical stance adopted by financiers is limiting financing opportunities in the market.

**Development:** the likelihood of this risk arising has decreased slightly, both as a result of the recovering economy and the measures we have taken, including the extension of our financing for the second time by one year at unchanged conditions through to May 2020.

**Measure:** we aim for the continued reduction of our average net debt through the intensive monitoring of our working capital and the structural reduction of our costs. We continue to monitor our working capital intensively and take any possible optimisation measures to further improve our liquidity position.

**Ambition:** our efforts are aimed at reducing both the likelihood and impact of this risk. This risk will decline to low in terms of likelihood and to medium in terms of impact.

### Pressure on consultancy rates (F2)

The rates for the professional services of commodity service providers could come under further pressure due to freelancers and brokers.

**Development:** due to the scarcity of IT professionals, both the likelihood and impact of this risk have declined. However, this decline in risk is limited, as we work on the basis of numerous multi-year framework agreements.

**Measure:** we target above-average performance levels and clear added value for our clients, by providing clients with an integrated package of the various services that Ordina offers. In addition to this, we focus on innovation, so that we can offer clients clearly identifiable added value vis-a-vis the delivery of capacity.

**Ambition:** we aim to reduce both the likelihood and the impact of this risk to the middle of the scale. We consider this an acceptable ambition level since the rates are a substantial part of our earnings model and entail both risks and opportunities.

### Credit risk (F3)

Due to market circumstances, clients, suppliers or vulnerable groups could experience solvency or continuity issues.

**Development:** the effect of the recovering economy and our strict credit management has reduced both the likelihood and the impact of this risk. The decline in risk is slight, due to the increase in the number of freelancers deployed via brokers. In 2017, we increased the amount of business we do with brokers. However, the impact of

this risk fell slightly due to the drop in the number of freelancers we deploy per broker.

**Measure:** internally, we report periodically on payment behaviour and the outstanding invoices sent to (vulnerable) partners in the chain. We periodically assess the creditworthiness of our partners, on the basis of strict limits.

**Ambition:** our efforts are aimed at reducing both the likelihood and impact of this risk, as a result of which both likelihood and impact are low.

### Impairment of goodwill (F4)

Market circumstances and forecasts may sometimes necessitate the impairment of goodwill on acquisitions.

**Development:** in 2017, the likelihood of this risk increased due to the fact that Ordina's results lagged expectations.

**Measure:** we continue to maintain strict control of our cost structure and we have taken measures to cut our overhead in the Netherlands. We are also targeting growth in all our markets to improve our returns. As a result, we reduce the likelihood of impairments to goodwill. For more information, see note 7.6 of the financial statements on page 125.

**Ambition:** we aim to further reduce both the likelihood and the impact of this risk to low.



### Valuation projects in progress (F5)

Projects can be complex due to the scale, the desired functionality, the applied technology or the involvement of several parties. This can result in financial risks in the valuation of projects in progress with respect to projects for which Ordina bears financial responsibility.

**Development:** the measures we have taken and the reduced number of large projects means both the likelihood and the impact of this risk have declined slightly in the past year.

**Measure:** Ordina maintains a strict schedule for the internal reporting of our result obligations, with specific attention devoted to the reliability of estimates and planning schedules. The valuation of projects in progress is an important part of our month-end procedures and we discuss the most important and the most high-risk projects during regular reviews.

**Ambition:** we aim to reduce the potential impact of this risk to low.

### Foreign operations (F6)

Our operations in Belgium/Luxembourg are further removed from our head office in geographical terms and operate in their respective markets with their own employees, clients and management. This entails a risk that these offices might operate too autonomously.

**Development:** the appointment of Jo Maes, former director BeLux, as CEO has further reduced this risk, both in terms of likelihood and impact.

**Measure:** the foreign operations are part of the division Belgium/Luxembourg. This division is managed in line with the Netherlands division. The directors of the Belgium/Luxembourg division have seats on the Executive Committee, which safeguards their engagement with the rest of the company. The financial function in Belgium/Luxembourg is managed centrally in functional terms.

**Ambition:** this risk is at our ambition level.

### Valuation deferred tax (F7)

At year-end 2017, Ordina had loss carry-forwards totalling EUR 42.7 million. In the context of these loss carry-forwards, Ordina has recognised a deferred tax claim of EUR 10.2 million. There is a risk that it will not be possible to offset these loss carry-forwards quickly enough, as a result of which (a part of) the deferred tax claim will have to be depreciated.

**Development:** the fact that our results lagged expectations in 2017 has increased the likelihood this risk will materialise.

**Measure:** we are targeting growth in all our markets and continue to monitor our cost structure to improve our returns. This reduces the risk of any depreciation of the deferred tax claim. For more information, please see note 10 of the financial statements on page 129.

**Ambition:** our aim is to reduce both the likelihood and the impact of this risk to low.

## OPERATIONAL RISKS

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Operational risks are unexpected developments that may have a negative impact on internal processes, employees, clients and systems. The main operational risks are as follows:

### Increasing risk profile client projects (01)

There is a growing need among clients to transfer responsibility to their suppliers. This combined with a growing claim culture has raised the risk profile of our projects.

**Development:** both the likelihood and the impact of this risk have declined, as the use of agile principles has reduced the level of obligation to produce results and due to the fact that projects are becoming smaller in scale.

**Measure:** our approach to projects ensures both control and buy-in and engagement from all parties concerned. During the acquisition phase, our Deal Review System ensures a critical assessment of opportunities and risks and involvement at the right level of management.

**Ambition:** our measures aim to reduce the impact of this risk to the medium end of the scale. We consider this level acceptable since we want to maintain our project portfolio as a valuable component of our earnings model. We therefore consider the risks acceptable vis-à-vis the related opportunities.

### Scarcity on the employment market (02)

There is a shortage of highly-trained IT professionals. This is due in part to a limited supply on the labour market and in part to lower retention rates (the retention of expert and experienced employees) and due to factors such as the recovering economy.

**Development:** the likelihood and impact of this risk increased considerably over the past year.

**Measure:** we are targeting a much clearer market positioning, through our focus on the five business propositions. This makes it much clearer to future employees what we stand for. In addition to this, we strive to create an innovative working environment, to make Ordina an attractive employer, with an excellent reputation in the field of integrity and high employee engagement. On top of this, our Young Professionals programme offers opportunities for young newcomers.

**Ambition:** we aim to reduce both the likelihood and the impact of this risk to medium.

### Data security and legislation (03)

Data security is vital in the current digital era. Confidential information can fall into the wrong hands due to cybercrime or the failure of IT systems.

**Development:** on the one hand, we are seeing a growing dependence on information systems, and on the other hand regulations are now tighter on this front. Both the impact and likelihood of this risk are unchanged from the previous year.

**Measure:** we work constantly on our security organisation and on increasing awareness. In addition, we are taking steps to safeguard our own data systems and those of our clients. Parts of our services are certified according to ISO 27001 standards, as well as NEN 7510 standards.

**Ambition:** we believe it is possible to reduce the impact of this risk slightly. The measures we take are primarily aimed at considerably reducing the likelihood of this risk materialising.

## COMPLIANCE RISKS

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Compliance risks include any and all issues that could lead to reputation damage, legal damage, sanctions imposed by regulatory bodies and financial damage as a result of the failure to comply with prevailing laws and regulations. The main compliance risks are as follows:

### Failure to comply with laws and regulations (C1)

Ordina's business operations must comply with all laws and regulations, such as the tender laws, competition laws, the duty to report data breaches and the Data Protection Act. In addition, Ordina must comply with all laws and regulations related to reporting and its stock exchange listing.

**Development:** our measures and the growing awareness on this front have slightly reduced the likelihood of this risk materialising.

**Measure:** a multi-disciplinary approach has increased the awareness of existing and changing laws and regulations and the ensuing risks. In operational terms, we monitor compliance via our Deal Review System and several specific procedures.

**Ambition:** we aim to reduce this risk to low. We consider our influence on the impact extremely limited.

### Risk of reputation damage (C2)

Ordina's reputation might be damaged by unfavourable reports about Ordina in the Dutch press and other channels.

**Development:** both the likelihood and impact of this risk are unchanged.

**Measure:** following the introduction of our integrity policy, we organised a number of follow-up sessions in the various management teams. We are constantly looking for ways to increase our employees' awareness and knowledge on this front. For instance, we organise awareness sessions for new employees and others. For more information, see the integrity section in the chapter About Ordina on page 28 of this annual report.

**Ambition:** we believe that we have taken all possible measures to reduce this risk to an acceptably low level. We consider our influence on the impact as limited. That puts the risk at our ambition level.