



Corporate Governance Code

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.

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.