

# Statutory Report on Corporate Governance 2013

This Statutory Report on Corporate Governance, cf. **Section 107(b)** of the Danish Financial Statements Act, forms part of the Management's review in the 2013 Annual Report and covers the financial period 1 January-31 December 2013

## CORPORATE GOVERNANCE

### The report is divided into three sections:

- Corporate Governance, describing NKT's activities pursuant to the Danish Corporate Governance recommendations.
- EuroSox, describing the main elements of NKT's internal control and risk management systems relating to financial reporting.
- NKT's management bodies, describing the composition of the Board of Directors, including Board of Directors' committees and the Executive Management.

The Corporate Governance section herein is not covered by the auditors' report in the Annual Report. The particulars concerning EuroSox and the composition of NKT's management bodies are covered by the auditors' statement on Management's review in the NKT Annual Report.

As a listed company on NASDAQ OMX Copenhagen, NKT is subject to rules governing share issuers and thus also the recommendations on corporate governance (the current recommendations can be seen at [www.corporategovernance.dk](http://www.corporategovernance.dk)). NKT fulfils its obligation either by complying with the recommendations or by explaining the reason for non-compliance. A complete description of how NKT fulfils the recommendations can be found at [www.nkt.dk](http://www.nkt.dk). NKT complies with 45 of the 47 recommendations and does not comply with:

- *Recommendation 3.1.4 that the company's Articles of Association should stipulate a retirement age for the members of the Board of Directors.*

At the Annual General Meeting on 21 March 2013 the Board of Directors proposed that the Articles of Association include a provision that the retirement age for Board members be 67. The proposal was not adopted.

- *Recommendation 4.1.2 on variable components of remuneration. This is partially complied with.*

The variable remuneration components for the Executive Management consist partly of a cash-based bonus for results achieved in the calendar year, and partly of a share-based incentive plan for results achieved over a longer term. NKT believes that this composition ensures an optimal balance between value creation for the company in both the shorter and longer term.

NKT also believes it is reasonable to claim repayment of variable remuneration components solely in cases where such claim might follow from the general rules of Danish law concerning repayment or compensation. NKT has therefore not found it necessary or appropriate to include a specific clause in the company's Articles of Association on repayment of variable remuneration components in very special cases.

NKT’s risk management and internal controls relating to the financial reporting process have been established to ensure:

- That the financial reporting presents a true and fair view without material misstatement in accordance with current legislation, standards and other regulations.
- That the Group applies appropriate accounting policies and exercises financial estimates that are reasonable in the circumstances.

Risk management and internal controls relating to the financial reporting process are designed with a view to limiting the risk of material errors and can create only reasonable, but not absolute, certainty that unlawful use of assets, losses and/or material errors and omissions relating to the financial reporting process will be avoided.

The Audit Committee and the Executive Management systematically assess material risks relating to the financial reporting process, as well as compliance with key related internal controls. The Board of Directors is kept advised on an ongoing basis.

The work of the Audit Committee is established in an annual plan which is approved by the Board of Directors. The principal components in the plan for 2013 are shown in Fig. 1. Among other things the Audit Committee must monitor the financial reporting process in conjunction with presentation of interim and annual reports.

NKT consists of a number of legal entities based on an operating structure in which the parent company NKT Holding presides over three independent business areas. They are supported by a number of shared functions in NKT Holding.

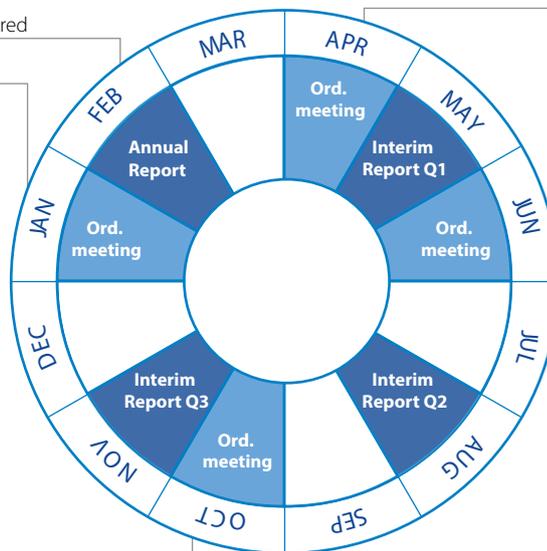
The business areas have established similar systems and procedures that are relevant for each of them. The business areas therefore operate partly on the basis of Group policies issued by NKT, and partly on the basis of policies and procedures of their own that reflect their individual characteristics.

NKT Holding has a process in which the strength of material key controls is assessed and reported to the Group Management and to the Audit Committee. This provides increased transparency and uniformity in the internal control environment at Group level. The managements of the business areas are responsible for formulating and implementing relevant procedures and policies for their business areas and also for implementing NKT’s Group policies.

**Fig. 1 Annual cycle of the work of the Audit Committee**

Besides the fixed components the meetings have the following agenda:

- Auditors’ records
- Management’s letter of representation
- Auditors’ supply of non-audit services monitored
- Appropriateness of chosen accounting policies assessed
- Internal controls in accounting processes monitored
- Self-assessment of Audit Committee’s work
- Group Management’s expenses monitored
- IT security policy monitored
- EuroSox (Section 107b)
- Consideration of risk assessment for override of internal controls assessed
- Auditors’ records relating to current audit discussed
- Internal controls in accounting processes monitored
- Succession plan for controlling & accounting management discussed
- External auditor agreement and fees assessed
- Need for internal auditor/controlling assessed



- Members’ independence assessed
- Annual plan etc. established

- Discussion of selected accounting issues
- Audit strategy for year drafted
- Auditors’ recommendations
- Need for internal audit/controlling assessed
- IT security policy etc. discussed
- Tax and VAT policy
- EuroSox (Section 107b) scope etc. defined

*A number of other matters are discussed at the meetings*

**Ordinary meetings: standard subjects**

- Compliance with financial reporting legislation
- Compliance with treasury manual
- Whistleblower reporting
- Measures initiated by Audit Committee discussed
- Measures initiated by Board of Directors discussed

**Interim and annual report meetings: standard subjects**

- Discussion of report
- Accounting policies and accounting estimates
- Draft for ‘Expectations for the year’
- Recommendation of report
- Recommendations to Board of Directors

## NKT's EuroSox activities in 2013 and 2014

NKT is continuously focused on expanding its EuroSox activities. In the past few years more than 90% of the Group's revenue has been encompassed by the assessment and reporting procedures for the financial accounting processes. The remaining 10% of revenue is attributable to a number of minor entities which collectively are considered immaterial as regards the risk of error in the Group financial statements.

In 2013, NKT continued its work of strengthening key controls in the financial accounting processes and also on strengthening the general IT controls. The controls in the financial accounting processes and the general IT controls were evaluated at Group and business area level based on a risk assessment. The strength of the key controls and the general IT controls was evaluated and reported to the Executive Management and Audit Committee. NKT is continuing its focus on ensuring that the future control environment and future IT security are of a high standard.

In 2014, NKT will continue to expand the number of entities covered by EuroSox and to abide by the planned strengthening of key controls and general IT controls.

Fig. 2 shows the main elements of NKT's internal control and risk management systems relating to the financial reporting process.

### Control environment

The composition of the Group Management is such that relevant competences are present with regard to risk management and evaluation of internal controls relating to the financial reporting process.

The Audit Committee is tasked with i.a. monitoring NKT's risk management and the internal control system relating to the financial reporting process. The Committee's terms of reference may be found at [www.nkt.dk/about-nkt/nkt-management/board-of-directors/committees/terms-of-reference-for-the-audit-committee.aspx](http://www.nkt.dk/about-nkt/nkt-management/board-of-directors/committees/terms-of-reference-for-the-audit-committee.aspx).

The Board of Directors is continuously informed about the discussions in the Audit Committee. The Audit Committee prepares the Board of Directors' treatment of and decisions on risk management and internal control relating to the financial reporting process.

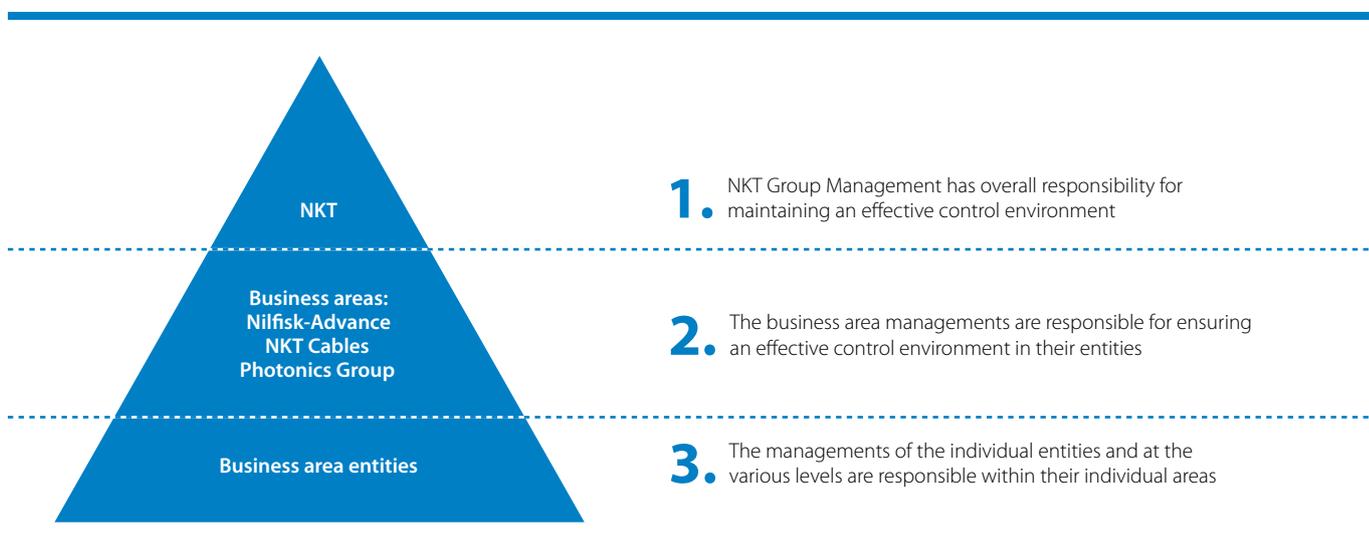
The Board of Directors, Executive Management and the business area managements continuously assess the organisational structure and staffing in key areas, including risk management and internal control relating to the financial reporting process.

NKT is a direct and indirect owner of more than 100 businesses worldwide. Its operations are predominantly centred in Europe and North America, but operations in Asia have grown significantly in recent years. The large number of entities and their geographical distribution and resulting cultural diversity, are factors that render risk management and internal controls in connection with the financial reporting process crucial for ensuring that the financial reporting presents a true and fair view.

The Board of Directors and Executive Management have approved policies, manuals, procedures etc. for key areas relating to the financial reporting process, including ethical guidelines, accounting manual, finance policy and tax policy. Based on this, each business area has implemented manuals and policies that include i.a. general procedures for certification, authorisation, reconciliation, results analysis and separation of duties.

NKT performs general supervision of compliance with the stated policies. NKT further presides over a whistleblowing scheme whereby employees can anonymously report non-compliance with rules, policies and ethical standards in a number of areas. The Audit Committee is notified quarterly of incidents reported, and in the event of incidents of a serious nature the Board plays an ongoing role.

Fig. 2 Structure of control environment



## Risk assessment

At least once a year the Board of Directors and Executive Management perform a general assessment of NKT's risks relating to the financial reporting process, which i.a. includes significant acquisitions made during the year. The purpose of this assessment is to identify those elements in the financial reporting process which carry the greatest likelihood for material misstatement. Accounting entries based on estimates or generated by complex processes represent a greater risk of error than other entries. On this basis a plan is prepared specifying how the most significant risks relating to the financial reporting process can be managed, eliminated or reduced to an acceptable level. Areas considered to contain the greatest risk for errors are described in 'Accounting estimates and judgements' in Note 1.2 to the consolidated financial statements in the 2013 Annual Report.

As part of the risk assessment the Audit Committee and Executive Management evaluate the risk of fraud and determine measures to eliminate or reduce these risks. As part of this process an assessment is made of the possibilities for Executive Management to bypass internal controls ('management override').

The most significant business risks which also impact the financial reporting process are described in the Risk management sections of the Management's review in the 2013 Annual Report.

The most significant and riskiest items in the consolidated financial statements are listed below:

Fig. 3 Key financial items

Item	Control objective
Revenue	Completeness, accuracy
Intangible assets	Measurement
Tangible assets	Measurement and presence
Construction contracts	Measurement
Inventories	Measurement and presence
Receivables	Measurement
Current tax and deferred tax	Measurement
Credit institutions	Completeness, presentation and disclosure
Trade payables	Presence and completeness

Furthermore, risk exists concerning presentation and disclosure for the notes.

## Control activities

The control activities are based on the risk assessment. The purpose of the control activities is to ensure compliance with policies, manuals, procedures etc. defined by the Board of and Executive Management as well as the individual business areas, and that any errors, discrepancies and shortcomings are prevented, discovered and rectified.

A formal reporting procedure for the Group's business areas has been established that has its starting point in a budget process and that subsequently embraces monthly realised figures, related budget deviations, and Key Performance Indicators. Quarterly

estimates for the year are also updated. The reporting packages that form the basis for internal and external financial statements are required to undergo accounting scrutiny.

The business areas have established reporting procedures of their own that satisfy the Group's reporting process and the particular condition of the business area. Supplementary data for use in complying with any note criteria, other disclosure criteria and operational analyses are obtained on an ongoing basis.

Based on a Group-level annual top-down risk assessment of the individual business areas, minimum criteria have been established for controls, reconciliations and accounting scrutiny for the Group's principal entities and financial items. The business areas carry out control visits to their entities i.a. to test the effectiveness of their controls and to ensure that the entities comply with the policies and guidelines of both the Group and the business areas. The visit results are reported to the local management, the business area management, the Audit Committee and the external audit function. NKT Holding performs general supervision of the results of the control visits made.

NKT Holding obtains a yearly letter of representation from each individual NKT reporting entity certifying that the financial statements are complete and present a true and fair view and that effective internal controls have been established.

## Information and reporting

NKT Holding maintains information and reporting systems which are intended to ensure i.a. that the financial reporting process is correct and complete, that the financial reporting is in accordance with legislation, and that NKT's internal control procedures are complied with.

Budgeting and forecasts are effected on the basis of the same accounting policies as the ongoing reporting. The procedures also provide for the rules of confidentiality for listed companies to be observed and for timely communication to be made to

*Of the more than 100 legal entities in the Group, 45 are subject to self-assessment and reporting of accounting controls. This represents more than 90% of the Group's revenue*

investors and other stakeholders. Policies, reporting instructions, etc. are updated whenever necessary.

**Monitoring**

The monitoring of NKT’s internal controls and risk management relating to the financial reporting process takes place on an ongoing basis via formal and informal procedures and at different NKT levels.

The monitoring of the Group’s control environment is chiefly performed by the financial accounting and the IT functions in the respective business areas in the form of controlling. Group Management annually assesses the need for internal audit. Internal audit is not currently employed as the control environment in the broad sense, including the controlling activities, is considered to minimise the value of internal audit.

Material weaknesses in NKT’s internal controls relating to the financial reporting process are reported by the AGM-elected auditors to the Board of Directors using the long-form audit report. Less material issues are reported to the Executive Management and the business area managements in

management letters. Executive Management follows up on the identified weaknesses.

The Executive Management and the Audit Committee monitor that effective response is made to reported weaknesses and that agreed measures in relation to risk management and internal controls for the financial reporting process are implemented as planned.

NKT applies uniform IFRS standards that are specified in the accounting manual of the Group and the business areas. Compliance with the accounting manual of the business areas is continuously monitored by the business area managements, while NKT Holding monitors the general compliance of the business areas with the Group’s accounting manual. Annual confirmations of compliance (letters of representation) with the provisions of the accounting manual concerning recognition, measurement and presentation are obtained from each NKT reporting entity.

Detailed monthly accounting data and quarterly updates on expectations (forecasts) are reported by the entities to the business area managements. The data are analysed and monitored by the business area managements, and consolidated

Fig. 4 Risk management and internal control procedure

The work relating to risk management and internal control in relation to the financial reporting process is based on a five-step model:



data for the business areas are reported to NKT Holding, which analyses and monitors the consolidated data for the business areas and for the Group as a whole.

Based on an annual assessment of which items are significant and represent high risk in relation to the financial reporting process, NKT Holding has a procedure whereby the most significant and most high-risk entities in the business areas perform a self-assessment of the controls, cf. Fig. 4. 'Risk management and internal control procedure'. The results of the self-assessment are reported to the business area managements and to NKT Holding. The overall picture is discussed with NKT, which collects and summarises the results for submission to the Audit Committee. The Board of Directors is notified subsequently.

## NKT'S MANAGEMENT BODIES

### Board of Directors

The Board of Directors consists of nine members headed by Chairman Jens Due Olsen. Six members are up for re-election each year at the Annual General Meeting and three are employee-elected members serving four-year terms. The employee-elected members are all men. The AGM-elected members comprise five men and one woman. Of the six AGM-elected members, four live in Denmark, while one lives in Sweden and one in Switzerland.

All the AGM-elected Board members have served for less than 12 years and are considered independent as defined by the Danish Corporate Governance recommendations.

The Board of Directors represents Danish and international business experience in the areas of industry, energy and high technology. The Board members are presented on pages 41-42 of the 2013 Annual Report, along with details on their special qualifications, independence, age, managerial positions and NKT shareholdings in both 2013 and 2012. The remuneration of each member for services to NKT's Board of Directors is disclosed at [www.nkt.dk](http://www.nkt.dk) under 'About NKT'/'Board of Directors'.

A minimum of five ordinary Board meetings are held annually in connection with financial reporting and the Annual General Meeting.

### Executive Management

In August 2013, a new governance structure was introduced under which the Board of Directors will in future operate with NKT's three business areas reporting to the Board. NKT's Executive Management was adjusted consequently and now consists of Group Executive Director & CFO Michael Hedegaard Lyng. The parent company, NKT Holding, will continue to be operated as a centre of competence for services including Investor Relations, compliance, treasury, legal and financial matters. The Executive Management and NKT's heads of Group services are presented on page 43 of the 2013 Annual Report.

### Committees

The Board of Directors has appointed a total of six committees: the Audit Committee (established 2009), the Nomination Committee and the Remuneration Committee (both established

2010) and three working committees (established 2013), one for each of the Group's three business areas.

An element in the Group's revised governance structure, the three new working committees are intended to optimise the basis for NKT's active ownership. The Board of Directors possesses a number of specific competences that can be used to stimulate value generation in the business areas. Each working committee therefore consists of two Board members who, together with the Group Executive Director hold monthly meetings with the business area managements.

### Committee members as from 2014

Committee	Members
Audit Committee	Lone Fønss Schrøder (Chair) and Jens Maaløe
Nomination Committee	Kurt B. Pedersen (Chair) and Lars S. Sørensen
Remuneration Committee	Lone Fønss Schrøder (Chair) and Jens Due Olsen
Nilfisk-Advance	Jens Due Olsen (Chair) and Lars S. Sørensen
NKT Cables	Jens Due Olsen (Chair) and Kristian Siem
Photonics Group	Jens Maaløe (Chair) and Jens Due Olsen

The Audit Committee has had eight meetings in the financial period 2013. The Nomination Committee had three meetings, among other things initiating the annual review of the individual Board members' competences, knowledge and experience as well as the change in the company's governance structure. The Remuneration Committee had three meetings in 2013, among other things submitting a Board remuneration recommendation to the Board of Directors and drafting a revised remuneration policy which will be submitted to the Annual General Meeting for approval on 25 March 2014.

The terms of reference for the Audit, Nomination and Remuneration Committees can be found at [www.nkt.dk](http://www.nkt.dk) under 'About NKT/Board of Directors/Committees', where the specialist competences of the committee members can also be seen.

### Board of Directors' assessment

The Board of Directors performs a yearly self-assessment to identify competences, consider individual member contribution and identify future areas of focus. The self-assessment for the current AGM period was performed prior to the AGM.

In continuation of the Board of Directors' self-assessment, an assessment is also performed of the Executive Management, partly in respect of the interaction between both parties, and partly in respect of competences. The assessment takes the form of a general discussion by the Board, the conclusions then being communicated by the Chairman to the Executive Management.