

Statutory Report

on enterprise management 2009

This statutory report on enterprise management, cf. section 107b of the Danish Financial Statements Act, forms part of the Management's Review in the annual report for 2009 and covers the period 1 January - 31 December 2009

The report includes three sections:

- **Corporate governance**, including a report on NKT's work regarding the recommendations on good corporate governance,
- **EuroSox**, including an account of the key elements in NKT's internal control and risk management systems in connection with the financial reporting process.
- **NKT's management bodies**, including a description of the composition of Board of Directors, including committees and Group Management Board.

The section in the report on corporate governance is not covered by the auditor's statement on the Management's Review in the annual report. The information about EuroSox and the composition of NKT's management bodies is covered by the auditor's statement on the Management's Report in the NKT Annual Report.

Corporate governance

The NKT Group is operated in accordance with the recommendations for Corporate Governance as formulated by the Danish Corporate Governance Committee, directly reflecting NKT's principles for farsighted ownership. Listed companies must either follow the recommendations or give reasons for their non-compliance. NKT fully accords with the 'comply or explain' principle, and in 2009 updated the

Corporate Governance section of its website. NKT deviates in one area from the recommendations, namely in the number of other directorships held by Board members. NKT's Board has a small number of members who in this respect breach the recommendations, but the Board does not believe that this impacts negatively on the commitment and efforts of these members on behalf of NKT.

The transparency that surrounds the company reflects NKT's fundamental belief in matching the world of which it is part by being a professional, credible, open and quality-conscious player. As an example, NKT's website contains a profile of each Board member, stating the particular competences relevant to their NKT involvement, number of NKT shares held, remuneration and other directorships. A brief presentation of the Group Management also appears on page 42-43 in the 2009 Annual Report.

The directors' remuneration is approved on an annual basis at the general meeting. In 2009 the general meeting agreed to a proposal from the Board for its remuneration for 2009 to be reduced, as a temporary measure, by 10% against the 2008 level. The Chairman based this proposal on the global recession and the Board's wish to show solidarity with shareholders. The Board of Management's remuneration is negotiated

by the Board of Directors and appears in Note 28 to the consolidated financial statement. The Board of Management is further remunerated by warrants, and these appear in Notes 28 and 29 in the consolidated financial statements, and are furthermore reported directly to the stock exchange.

A new website with a more logical and informative layout was launched in spring 2009 and provides easier shareholder access to information about the NKT Group and its shares. In 2009 the Board of Management attended some 200 meetings with Danish and international investors. NKT also hosted capital market days with visits to NKT Cables in Germany and Nilfisk-Advance in Hungary and speakers from Photonics Group.

A Board evaluation is conducted every two years and in 2007 took the form of a self-evaluation. In 2009, as part of efforts to continuously improve its work form, the Board of Directors engaged a firm of external consultants to assess its work. The purpose of the evaluation was to identify the Board's strengths and spotlight future areas of focus for the work of the Board.

The evaluation took the form of individual interviews with the members of the Group Management. The conclusions were presented in a report and discussed at a Board meeting. They are now publicly available on NKT's website.

As an extension of the Board of Directors' own evaluation, the work of the Board of Management is also evaluated both in relation to the interaction between Board of Directors and Group Management and



In August 2009, Center for Corporate Governance at Copenhagen Business School found NKT totally in compliance with the 'comply or explain principle' as defined by the Danish Corporate Governance Committee. The Committee's recommendations are available on www.corporategovernance.dk and reproduced on NKT's website, www.nkt.dk, with a description of NKT's compliance.

in relation to the competences of the individual Board of Management members. The evaluation takes the form of a general discussion among the Board of Directors, the conclusions then being passed on to the CEO by the Chairman of the Board.

Extract of evaluation of Board of Directors:

'The evaluation shows that an extremely positive and open working climate exists within NKT's Board of Directors, which makes for effective collaboration and good use of the Board's collective competences and broad-based experience. The work of the Board is based on an overall, holistic perspective.

The global recession has also made its mark on the Board's work form, with deeper Board involvement now in certain areas, particularly finance. Strategic issues have traditionally represented a central part of the Board's work, and it is the Board's ambition to again devote more time to strategic discussions.'

The Board of Directors has visited several of the NKT companies in recent years. In 2009 a Board meeting was held at NKT Photonics in Denmark and later in the year the Board travelled to Cologne where NKT Cables has built one of the world's most advanced high voltage facilities. The Board then continued to Budapest where Nilfisk-Advance's factory has been at the centre of several of the year's structural activities.

In 2009 the Board of Directors established an Audit Committee which has held six meetings. The Committee's task is to monitor NKT's financial reporting process and internal control environment, and to

establish the framework for external audit. The Committee, which started work in April 2009, consists of two NKT directors.

When appointing new representatives to the Danish Corporate Governance Committee in 2009, at that time the Danish Minister for Economic and Business Affairs Lene Espersen chose NKT's CEO, Thomas Hofman-Bang as one of five new members. At the end of 2009, the Committee proposed changes to the existing recommendations which are expected to be adopted in 2010.

EuroSox

NKT's risk management and internal controls relating to the financial reporting process have been established in order to make sure that:

- the financial reporting presents a true and fair view without material misstatements in accordance with current legislation, standards and other regulation
- appropriate accounting policies are adopted and applied, and that accounting estimates exercised are reasonable under the circumstances.

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

The Group Management has the overall responsibility for NKT's risk management and internal controls relating to the financial reporting process. The managements of the Group's individual business units are responsible for ensuring an efficient control

environment in connection with the financial reporting for the individual business units. The managers in the individual units and at different levels are responsible within their respective areas.

The Audit Committee and the Group Management systematically and continuously assess material risks in relation to the financial reporting process as well as compliance with essential internal controls relating to the process. The Board of Directors is kept regularly informed.

The work of the Audit Committee is established in a year plan approved by the Board of Directors which requires the Audit Committee to monitor the financial reporting process in connection with quarterly and annual reporting. Standard procedures have been established among other things with focus on update of financial reporting standards etc., examination of items with a high degree of accounting estimate, one-off items, checklists concerning presentations, etc.

Risk management and internal controls relating to the financial reporting process have hitherto chiefly operated within the business units with only overall control by NKT Holding. The majority of Group policies etc. on which risk management and internal controls relating to the financial reporting process are based have thus been established within the business units in order to cater for the particular characteristics of these units. In more recent years, however, NKT Holding has placed increased focus on the controls environment and the establishment of uniform policies and procedures.

In 2009 adjustments were made in the form of new and updated policies, procedures etc.

Terms of reference for the Audit Committee is available on the NKT website under 'NKT Holding' and the menu item 'NKT and the community/Audit Committee'

which do, however, not fundamentally change the controls environment. The work on the regulation concerning risk management and internal controls in connection with the financial reporting process has created increased transparency and uniformity in the Group's internal controls environment. The activities have among other things been based on the process described in the figure below.

Below you will find a more detailed description of the key elements in NKT's internal control and risk management systems in connection with the financial reporting process.

Control environment

The composition of the group management means that it has relevant competences within risk management and assessment of internal controls in connection with the financial reporting process.

The Board of Directors has established an Audit Committee, among other things with the aim of monitoring NKT's risk management and internal control system in connection with the financial reporting process. The group management is informed about the discussions in the Audit Committee on an ongoing basis.

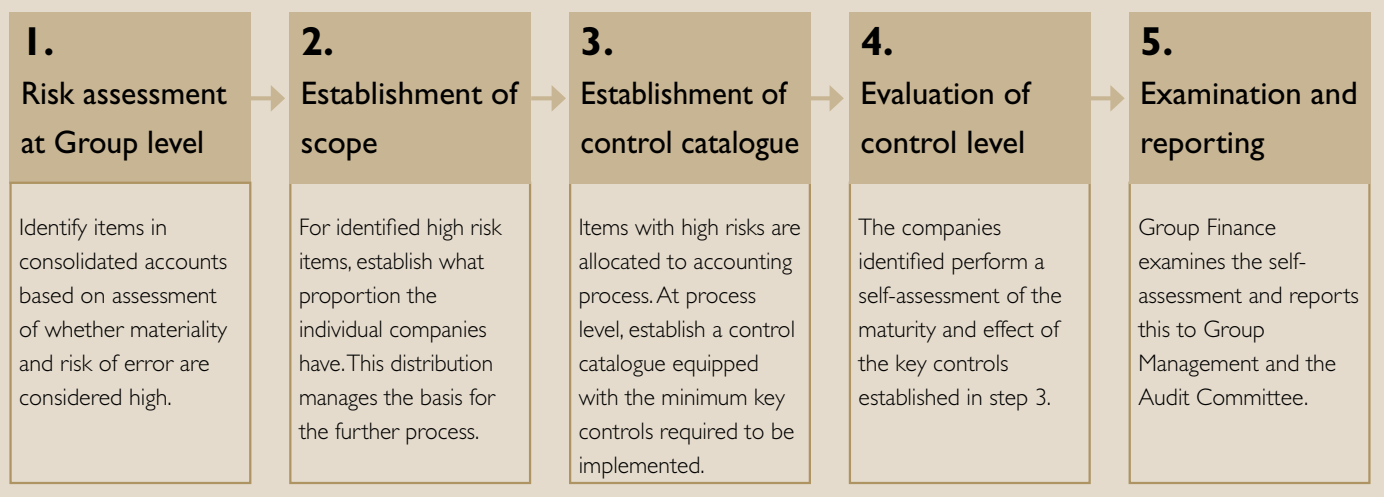
The Audit Committee prepares the Board's discussion of and decision-making about risk management and internal controls in connection with the financial reporting process. The responsibility for the day-to-day maintenance of an efficient control environment and risk management and internal control system in connection with the financial reporting process lies with the Group Management Board. The Management Boards of the group's business areas are responsible for ensuring an efficient control environment and risk management and

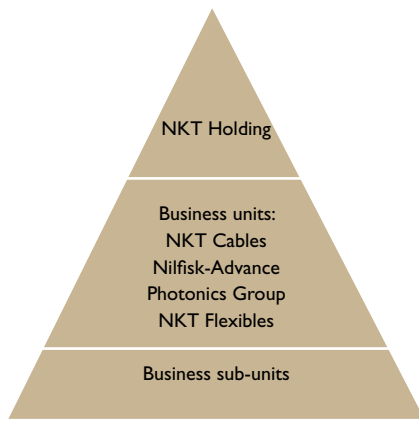
internal control system in connection with the financial reporting process for the respective business areas. Managers at different levels are responsible within their different areas.

The group management evaluate on an ongoing basis organisation and staffing in material areas, among other things in relation to risk management and internal controls in relation to the financial reporting process. The Board of Directors and/or the Group Board of Management have adopted policies, manuals, procedures, etc., within material areas in relation to the financial reporting process, including ethical guidelines, accounting manual, treasury policy and tax policy. On the basis of the above, the business areas have each implemented an accounting and/or reporting manual which will among other things include general procedures for

Financial Reporting Process: Risk management and internal control process

Planning of work on risk management and internal control in connection with the financial reporting process is based on a five-step model:





- 1 *The Board of Management is responsible for maintaining an effective control environment in conjunction with the financial reporting process.*
- 2 *The Managements of the Group's individual business units are responsible for ensuring an effective control environment in their respective units.*
- 3 *The Managers of the individual operating units and at different levels are responsible within their respective areas*

certification, authorisation, reconciliation, performance reviews, and separation of duties. NKT Holding is in charge of the overall supervision of compliance with the above policies, etc., by the individual business areas within material areas.

The Group Management Board will in connection with the financial reporting process report to the Audit Committee and the Board of Directors regarding compliance with relevant legislation and other regulations.

Risk assessment

The items in the financial statements based on estimates or created through complex processes involve larger risks of errors than other items in the financial statements. Under the section 'Accounting estimates and judgements' in note I to the consolidated financial statement in the annual report for 2009, the areas which are considered to have the largest risk of errors are described.

The group management will make an overall assessment of risks in connection with the financial reporting process, including among other things material acquisitions made during the year. A plan is made on the basis thereof for controlling the most important risks in connection with the financial reporting process, eliminating them and/or reducing them to an acceptable level, respectively.

As part of the risk assessment, the Audit Committee and the group management will decide on the risk of fraud and measures to eliminate or reduce such risks. In this connection, the Group Management Board and the remaining management's possibilities of ignoring internal controls are assessed.

The Board of Directors is informed accordingly.

Decisions regarding initiatives with a view to eliminating or reducing risks are based on an assessment of importance and likelihood that the risk will occur.

The most important business risks which will also affect the financial reporting process appear from the section 'Risks' in the annual report for 2009.

Control activities

The control activities are based on the risk assessment. The aim of the control activities is to ensure that policies, manuals, procedures, etc., set up by the Board of Directors and the Group Management Board and the individual business areas, respectively, are observed, just as NKT wants to prevent, discover and correct any errors, deviations and shortages, etc.

A formal consolidated reporting process has been established for the group's business areas based on a budget process and subsequently including monthly, realised figures, related budget deviations, and Key Performance Indicators, etc. Estimates for the year are updated on a quarterly basis. Requirements regarding analytic review, etc., of the reporting packages which form the basis of internal and external financial statements have been established. The business areas have established reporting processes allowing for the group's reporting process and the special operating conditions of the business area.

Additional information is collected on an ongoing basis in order to meet any note

requirements, other disclosure requirements, and operating analyses.

On the basis of the risk assessment, minimum requirements have been established for controls, reconciliations and analytic review for the important units and accounting items in the group. In addition, the business areas will make controller visits, among other things with the aim of assessing the units' control environment on the basis of a risk assessment and to ensure that the units live up to the policies, etc., of both the groups and the business areas. The results of controller visits are reported to the management for the business area in question, the external auditors and the local management. NKT Holding has the overall supervision of the results of the controller visits carried out.

For NKT Cables, the number of controller visits for 2009 has been limited because of organisational changes. Other internal procedures compensate partly for this, and for 2010 focus will be on controlling.

The management collects a letter of representation from each reporting unit in NKT to the effect that the financial statement is complete and gives a true and fair view.

Information and reporting

NKT maintains information and reporting systems which will among other things ensure that the requirements for financial reporting, including external financial reporting in accordance with legislation and regulations, are correct and complete. Budgeting and forecast are prepared on the basis of the same accounting policies as the continuous reporting. In addition, the



procedures will allow for maintenance of the rules regarding confidentiality for listed companies, and communication in due time to investors, etc. Policies, etc., are updated when required and reviewed at least annually. They are - together with other policies, etc. - which are relevant to internal control regarding the financial reporting process, such as guidelines for capital investments, credit facilities, etc., available to NKT employees.

Monitoring

Any risk management and control system must be monitored, controlled and subject to quality assurance on an ongoing basis in order to ensure its effectiveness. Monitoring is through continual and regular assessments and controls at different levels within NKT.

NKT uses consistent IFRS rules which have been stated in the accounting manual of the group and the business areas. Compliance with the accounting manual for the business areas is monitored continually by the Management Boards of the business areas, whereas NKT Holding controls that the business areas comply with the accounting manual for the group. Annual confirmation of compliance with the stipulations in the accounting manual regarding inclusion, recognition, measurement and presentation (letter of representation) is obtained from each reporting NKT unit.

Detailed monthly accounting data and quarterly updates regarding expectations (forecasts) are reported from the units to the Management Boards of the business areas. The data is analysed and monitored by the Management Boards of the business areas, and consolidated data for the business areas is forwarded to NKT Holding which will analyse and monitor the

consolidated data for the business areas and the group as such.

On the basis of an assessment of the items which involve risks and are important in relation to the financial reporting process (risk assessment), NKT has implemented a process according to which the most important and most risk-related units in the business areas carry out a self-evaluation of the controls. The result is reported to the management of the business areas and NKT Holding. The total picture is discussed with NKT Holding which will collect and summarise the results which are presented to the Audit Committee. Subsequently, the Board of Directors is informed.

The auditors elected by the general meeting will report in the long-form audit report to the Board of Directors regarding material weaknesses in NKT's internal controls in connection with the financial reporting process. Less important aspects are reported in Management Letters to the Group Management Board and the Management Boards for the business areas. The group management will follow up on weaknesses, etc., pointed out.

The Audit Committee will make sure that the Group Management Board reacts efficiently to any weaknesses and/or shortages and that agreed initiatives in relation to risk management and internal controls in relation to the financial reporting process are implemented as planned.

NKT's management bodies

NKT's management consists of Board of Directors and Management Board. The Board of Directors includes 9 people, three

of whom have been elected by the employees, with Christian Kjær as Chairman of the Board. The Board of Directors has established one committee: the Audit Committee, consisting of two independent members (Jens Due Olsen, Chairman, and Jan Trøjborg). Jens Due Olsen is also qualified within accounting and auditing. The Board of Directors has not established any other committees.

The Management Board consists of three people: Thomas Hofman-Bang, President and CEO, and Michael Hedegaard Lyng, Group Executive Director, CFO, and Søren Isaksen, Group Executive Director, CTO.

The group's business areas are each headed by a Managing Director reporting to NKT Holding's Managing Director, Thomas Hofman-Bang.