



Statutory Report on Corporate Governance 2011

This statutory report on Corporate Governance, cf. section 107(b) of the Danish Financial Statements Act, forms part of the Management's review in NKT's Annual Report 2011 and covers the financial period 1 January - 31 December 2011

The report is divided into three sections:

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

The Corporate Governance section of the report is not encompassed by the auditor's statement on the Management's review in NKT's Annual Report. The information about EuroSox and the composition of NKT's management bodies is encompassed by the auditor's statement on the Management's review in NKT's Annual Report.

Corporate Governance

The NKT Group is governed on the basis of the company's core values, which are that NKT should be a qualified, credible, open and quality-conscious enterprise focused on long-term ownership. In direct continuation of these principles, NKT conforms to the recommendations of the Danish Committee for Corporate Governance, as last updated on 16 August 2011.

As a listed company NKT is subject to the guidelines of NASDAQ OMX Copenhagen which has determined to include the 2011 recommendations of the Danish Committee for Corporate Governance in its 'Rules for share issuers as at 1 October 2011'.

With the most recent amendment in 2011 there are now 79 recommendations. In this amendment the Committee changed the recommendation pertaining to diversity, i.e. with recommendation of specific goals in this area. As a result of these changes the NKT Board of Directors has formulated and incorporated a Group policy on diversity at NKT's management levels. The policy and its associated action plan for achievement of the objectives can be found at www.nkt.dk under 'About NKT/Policies'. It is also described in NKT's general report 'Corporate Governance 2011' at <http://www.nkt.dk/dk/Menu/Om+NKT/Ledelse/Corporate+Governance>.

Committees

The Board of Directors has appointed three committees: the Audit Committee consisting of two independent members (as defined in section 5.4.1 of the Corporate Governance recommendations), the Nomination Committee and the Remuneration Committee, each consisting of two members (Christian Kjær, chairman, and Jens Due Olsen, member), one is independent and one has been a Board member for more than 12 years and therefore does not qualify as independent according to the definition in the Corporate Governance recommendations.

Audit Committee

The Board of Directors' Audit Committee held 5 physical meetings and 3 telephone meetings. The Committee consists of the Board members Jens Due Olsen (chairman) and Jens Maaløe (member). Jens Due Olsen possesses specialist insight into the economic and financial aspects of listed companies, including accounting and auditing. Jens Maaløe's competences consist of a broad general understanding of accounting, business insight and a healthy scepticism.

Nomination Committee

The Nomination Committee held 2 meetings in 2011 and initiated the annual assessment of the competence, knowledge and experience of the individual members of the Board of Directors. The Committee undertook i.a. the search for a new member of the Board of Directors in succession to Krister Ahlsröm.

At the Annual General Meeting in March 2011, Kurt Bligaard Pedersen, Executive Vice President, Dong Energy, was voted on to the NKT Board of Directors and subsequently presented to NKT by the Chairman of the Board of Directors and the Executive Management Board.

Remuneration Committee

The Remuneration Committee held 2 meetings and recommended the remuneration policy to the Board of Directors ahead of the upcoming Annual General Meeting.

Remuneration policy proposals are submitted to the NKT Annual General Meeting for approval. The policy is appended to the rules of procedure for the Board of Directors and the Executive Management Board and defines the guidelines for establishing and

approving remuneration for the Chairman, Deputy Chairman and other members of the Board of Directors and for members of the Executive Management Board. According to the policy the Chairman shall receive three times the basic remuneration and the Deputy Chairman one and a half times the basic remuneration. No adjustment mechanisms are linked to the basic remuneration. Members of the Board of Directors are not granted share options and there are no other variable remuneration components. The point of departure is that the basic remuneration shall be on a par with that paid by comparable listed industrial companies (cf. also Note 28 to the consolidated financial statements in the 2011 Annual Report).

The Annual General Meeting in 2011 approved a Board of Directors' resolution to increase the Chairman's remuneration from twice to three times the basic remuneration as the Chairman's payment was no longer consistent with current levels.

In 2011 the remuneration of the Executive Management Board was established with the Board of Directors after prior discussion and recommendation by the Remuneration Committee. The remuneration appears in Note 28 to the consolidated financial statements in the 2011 Annual Report and consists of a fixed basic component, a short-term cash bonus, a long-term share-based incentive scheme, a pension, and other customary non-monetary benefits such as a company car, etc.

The bonus portion of the incentive pay is a yearly payment conditional upon specified targets being achieved. The share-based portion of the incentive pay consists of annually granted warrants initiated by the Board of Directors. Warrants are calculated using

the Black-Scholes formula. The value may amount to a maximum of 50% of the individual executive's annual fixed pay, including pension. The warrants may be exercised not earlier than 3 years and not later than 5 years after granting. The incentive scheme appears in Notes 28 and 29 to the consolidated financial statements in the 2011 Annual Report and is disclosed directly to the stock exchange. Severance arrangements are described in Note 28 to the consolidated financial statements in the 2011 Annual Report. The remuneration policy states that the Executive Management Board shall receive a competitive salary commensurate with the duties assigned and which represents an attractive long-term employment element, cf. also the principles for the Executive Management Board's remuneration stated in the Corporate Governance section of the NKT website under 'About NKT'.

EuroSox

NKT's risk management and internal control process in conjunction with financial reporting has been established in order to ensure that:

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

Risk management and internal control in relation to the financial reporting process are designed with a view to limiting the risk of material errors and can create reasonable but not absolute certainty

Fig. 1 Audit Committee activities in 2011



that wrongful use of assets, losses and/or material errors and omissions in connection with financial reporting will be avoided.

The Audit Committee and the Executive Management Board systematically assess material risks in relation to the financial reporting process as well as compliance with material 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. The principal components in the plan appear in the Audit Committee's annual calendar shown in Fig. 1. From this it can be seen that the Audit Committee is required to monitor the financial reporting process in connection with quarterly and annual reporting. Standard procedures have been established i.a. with focus on update of financial reporting standards etc., scrutiny of accounting items subject to a high degree of estimation, one-off accounting items, checklists concerning disclosure obligations, etc.

NKT consists of a number of legal entities operationally structured into 4 business units under the parent company NKT Holding. Each business unit is organised as a subgroup with its own subsidiaries. The individual business units operate with a high degree of autonomy and have their own managements with responsibility for unit operations.

The business units' underlying subsidiaries pursue similar operations that are closely related to the business units' general operations, something which in large measure facilitates establishment of similar systems and procedures. The business units consequently operate both with their own policies and business procedures, which take account of their own individual characteristics, and also with the corporate policies established by NKT Holding.

The business unit managements are responsible for formulating and implementing relevant procedures and policies for their units and for implementing the corporate policies established by NKT Holding. NKT has a process in which the strength of material key controls is evaluated and reported to the Executive Management

Board and the Audit Committee. This provides increased transparency and consistency in the internal control environment at Group level.

EuroSox 2011 and 2012

This section describes issues relating to EuroSox in 2011 and the principal plans for 2012.

In 2011 approx. 90% of NKT's revenue was encompassed by the assessment and reporting procedures for the financial accounting processes.

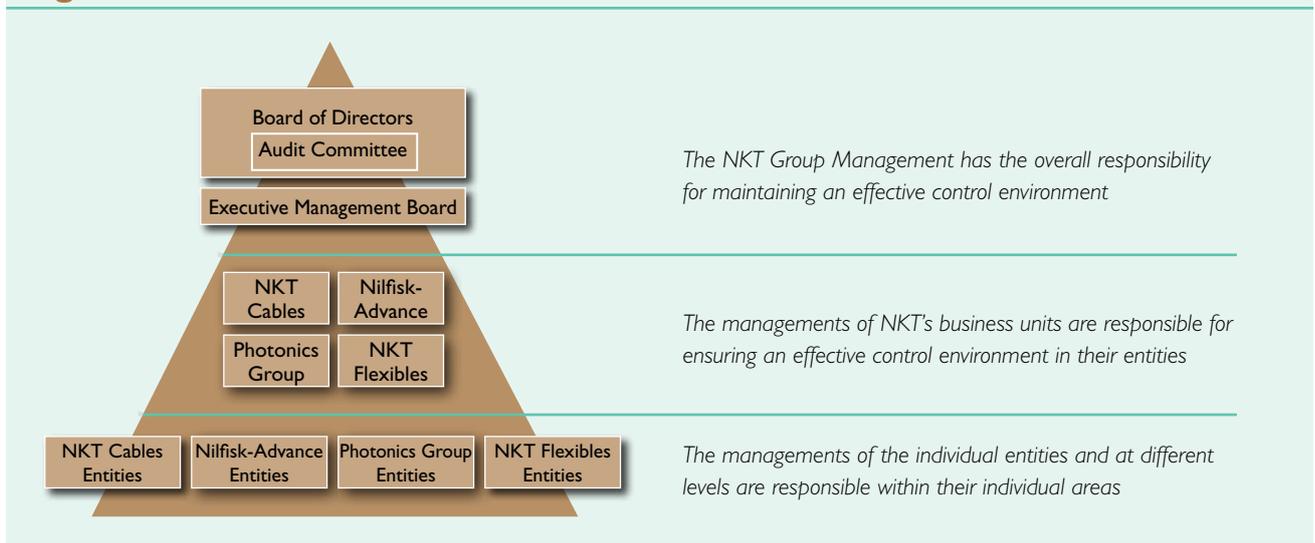
In a number of small entities, which collectively are not considered significant for the Group, adequate functional separation could not be established due to the small number of employees in the entities. Compensatory controls either were established, or are currently being established as far as feasible.

The general IT controls have hitherto been assessed at company level. In 2011 NKT established a process in which selected general IT controls relating to NKT Cables and Nilfisk-Advance were assessed both at Group and business unit level. The process was based on a risk assessment of selected IT controls concerning the financial reporting. The strength of the controls was evaluated and reported to the Executive Management Board and the Audit Committee. The process was instrumental in creating transparency and consistency for NKT's general IT controls. The strength of the controls was improved in 2011 compared with previously, but continued focus is required on this area to ensure a continued high level of IT security in the future.

In 2011 business processes at NKT Cables relating to work in progress did not adequately create the necessary certainty in financial reporting. This has been compensated for by NKT Group Management and NKT Cables' Management by ongoing follow-up and other control activities. Measures have been initiated to improve the business procedures.

NKT implemented a new ERP system in 2011 in a number of businesses, something which in the implementation phase adversely

Fig. 2 Structure of control environment



influenced the IT control environment due to increased user access. In accordance with the implementation plan the IT control environment was re-established after the implementation of the new ERP system. Compensatory controls were established during the implementation.

NKT Flexibles initiated establishment of a new factory in Brazil which is expected to be ready for production in mid-2013. In 2011 important contracts were established concerning equipment procurement, building construction, leasing of land, etc., and costs were also incurred. Interim procedures were put in place to deal with this until a permanent organisation is established in Brazil.

In 2012 NKT will continue working to strengthen key controls in the financial accounting processes and also general IT controls. Moreover, further controls will be embraced by the process.

Fig. 3 shows the main elements of NKT's internal control and risk management systems relating to financial reporting.

Control environment

The composition of the Group Management is designed to ensure that relevant competences concerning risk management and assessment of internal control in relation to the financial reporting process are in place.

The Board of Directors has established an Audit Committee tasked with i.a. monitoring NKT's risk management and internal control system in connection with the financial reporting process. The Committee's terms of reference may be found at www.nkt.dk under 'About NKT' / 'Management' / 'Board Committees' / 'Audit Committee'. The Group Management is continuously informed of the discussions in the Audit Committee. The Audit Committee prepares the Board of Directors' handling of and decisions on risk management and internal control relating to financial reporting. The Executive Management Board has overall responsibility for the day-to-day maintenance of an effective control environment and for risk management and internal control systems relating to financial reporting. The managements of NKT's individual business units are responsible for ensuring an effective control environment and for risk management and internal control systems relating to financial reporting in their respective units. The managements of the individual operating entities and at various levels are responsible within their domains.

The Group Management continuously assesses organisational structure and staffing in significant areas i.a. in relation to risk management and internal control relating to financial reporting.

NKT Holding is a direct and indirect owner of more than 100 businesses worldwide. Operations are predominantly centred in Europe and North America, but activities in Asia have grown significantly in recent years and at the end of 2011 China accounted for 8% of consolidated revenue. The many entities and their geographical distribution and related cultural diversity are factors which make risk management and internal control relating to financial reporting vital for ensuring that the reporting presents a true and fair picture.

The Board of Directors and/or the Executive Management Board have approved policies, manuals, procedures etc. within significant areas relating to financial reporting. These include ethical guidelines, accounting manuals, financial policy and tax policy. Based on this, each of the business units has implemented an accounting and/or reporting manual which i.a. includes general procedures for certification, authorisation, reconciliation, analysis of results and separation of duties. NKT Holding performs overall supervision of compliance by the business units with the stated policies, etc., in significant areas. NKT also has a whistleblower scheme whereby employees can anonymously report non-compliance with rules, policies and ethical standards in various areas. The reports received are notified quarterly to the Audit Committee, and the Audit Committee is also involved in the handling of significant reports.

In conjunction with financial reporting the Executive Management Board reports to the Audit Committee and the Board of Directors on compliance with relevant legislation and other regulations.

Risk assessment

Accounting items which are based on estimates or generated by complex processes are subject to greater risk of error than other accounting items. The areas in which the greatest risks of error are deemed to exist are clarified in 'Accounting estimates and assessments' in Note I to the consolidated financial statements in the 2011 Annual Report.

The Group Management performs an overall risk assessment in conjunction with financial reporting that covers i.a. significant acquisitions effected during the year. Based on this, a plan is established for how to manage, eliminate and/or reduce to an acceptable level the most material risks relating to the financial reporting process. As an element in the risk assessment the Audit Committee and the Executive Management Board address the risk of fraud and measures to eliminate or reduce this risk. This includes assessing the possibilities of internal controls being overridden by the Executive Management Board and the rest of the management ('management override'). The Board of Directors is notified in this regard. Decisions on measures aimed at eliminating or reducing risks are based on an assessment of the materiality and probability of the risk. The most material commercial risks which also influence financial reporting appear under 'Risk factors' in Management's review in the 2011 Annual Report.

Control activities

The control activities take their point of departure from the risk assessment. The aim of the control activities is to ensure compliance with policies, manuals and procedures, etc., defined by the Board of Directors, the Executive Management Board and the individual business units. NKT also wishes to prevent, discover and rectify any errors, discrepancies and shortcomings, etc.

A formal Group reporting procedure has been established for NKT's business units which takes its point of departure from a budget process and which subsequently embraces monthly realised figures, related budget deviations, key performance indicators, etc. In addition, estimates for the year and rolling cash flow forecasts are updated quarterly. The reporting packages that



form the basis for internal and external financial statements are subject to financial analyses etc.

The business units have established reporting processes that comply with the Group's reporting process and the conditions specific to the unit. Additional disclosures are obtained on an ongoing basis to fulfil requirements for notes, other disclosure requirements and for operational analyses.

Based on an annual top-down risk assessment of the individual business units performed at Group level, minimum requirements in respect of controls, reconciliations and financial analyses have been established for the key Group businesses and accounting items. In addition, the business units perform controller visits i.a. for the purpose of evaluating the control environments of the entities on the basis of a risk assessment and for ensuring that the entities comply with the policies, etc., of the Group and of the business units. The results of controller visits are reported to the local management, the business unit management and the external audit function. NKT Holding performs overall supervision of the results of controller visits.

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

Information and reporting

NKT maintains information and reporting systems which i.a. are intended to ensure that the requirements relating to financial reporting are correct and complete, including that external financial reporting is in accordance with legislation and provisions.

Budgeting and forecasts are elaborated using the same accounting principles as the ongoing reporting. The procedures also allow for the rules of confidentiality for listed companies to be maintained and for communication to be made to investors at the right time, etc.

Policies, reporting instructions, etc., are updated when necessary. They are available to NKT's employees together with other policies,

Of the Group's more than 100 legal entities, 41 are reporting entities comprised by self-assessment and reporting of accounting controls. This covers approx. 90% of the Group's revenue along with the activities of NKT Flexibles. This company's revenue is not stated in Group revenue as it is not fully represented in the consolidated financial statements. 10 reporting entities are currently covered by the IT controls procedure.

etc., relevant for internal control relating to financial reporting, such as guidelines for capital expenditure and credit facilities, etc.

Monitoring

All risk management and control systems must undergo regular monitoring, checking and quality assurance testing to ensure their efficacy. The monitoring takes place by ongoing and periodic assessments and inspections at various levels within NKT.

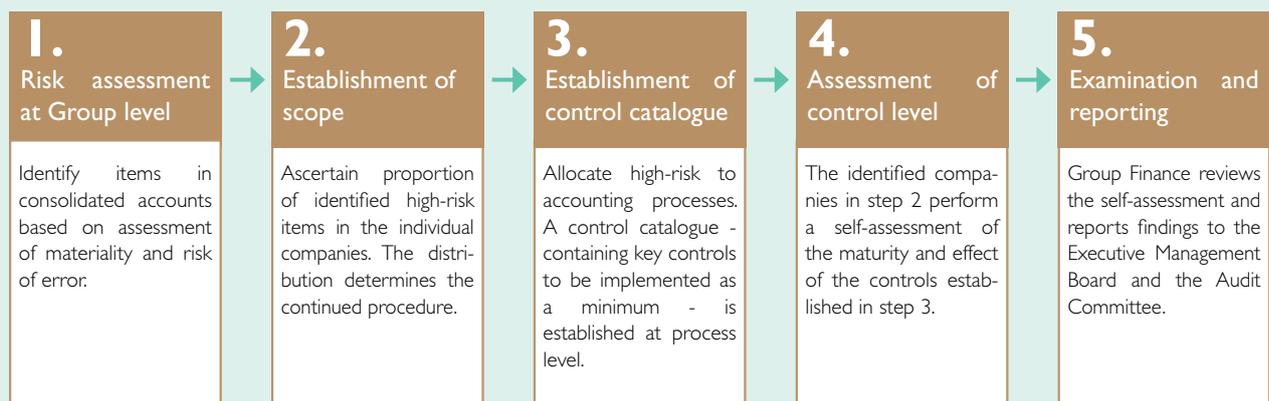
NKT applies uniform IFRS standards that are specified in the finance manual of the Group and of the business units. Compliance with the business unit manual is continuously monitored by the business unit managements. Compliance by the business units with the Group manual is monitored by NKT Holding. Confirmation of compliance (a letter of representation) with the manual's provisions concerning recognition, measurement and presentation is provided yearly by each reporting entity in NKT.

Detailed monthly accounting data and quarterly updates on expectations (forecasts) are reported from the entities to the business unit managements. The data are analysed and monitored by the business unit managements, and consolidated data for the business units are submitted to NKT Holding, which analyses and monitors the consolidated data for the business units and the Group as a whole.

Based on an annual assessment of accounting items that are high-risk and significant in relation to financial reporting, NKT has implemented a process whereby the highest-risk and most significant business unit entities perform a self-assessment of the controls, cf. Fig. 3 'Risk management and internal control procedure'.

Fig. 3 Risk management and internal control procedure

Organisation of risk management and internal control activities relating to financial reporting is based i.a. on a five-step model:



The results of the self-assessment are reported to the business unit managements and to NKT Holding. The overall picture is discussed with NKT Holding which gathers and summarises the results for presentation to the Audit Committee. Thereafter the Board of Directors is notified.

The monitoring of the control environment in the Group is chiefly performed by the finance functions, the IT sections, etc., in the respective business units in the form of controlling. The Group annually assesses the need for internal audit. Internal audit is currently not selected as the control environment in the broad sense, including the controller activities, is considered to minimise the value of establishing internal audit.

The auditors appointed by the Annual General Meeting report to the Board of Directors, using the long-form audit report, on significant weaknesses in NKT's internal controls relating to financial reporting. Less significant issues are reported in management letters to the Executive Management Board and the business unit managements. The Group Management follows up on the identified weaknesses, etc.

The Executive Management Board and the Audit Committee monitor that there is effective response to any weaknesses and/or shortcomings and that agreed measures to strengthen risk management and internal controls relating to financial reporting are implemented as planned.

NKT's management bodies

The NKT Group Management consists of a Board of Directors and an Executive Management Board. The Board of Directors consists of 9 members, 3 are elected by the employees for a period of 4 years, and 6 are up for re-election each year at the Annual General Meeting.

5 of the 6 members of the Board of Directors elected by the Annual General Meeting are independent (as defined in section 5.4.1 of the Corporate Governance recommendations). The sixth member joined the Board of Directors more than 12 years ago and is therefore not independent as defined by the recommendations.

The Board of Directors is headed by Christian Kjær. The Board members represent a broad spectrum of experience from both Danish and international business, politics and high-tech industry.

The NKT website describes the competences which the Board considers it needs to optimally discharge its duties. Furthermore, a presentation is given of all Board members, stating the special competences relevant for their involvement in NKT, number of NKT shares held, amount of remuneration and other directorships. The Board members are also profiled on pages 41-42 of the 2011 Annual Report with statement of i.a. special competences, possible independence, age, positions held, and NKT shareholding for the current and previous year.

The retirement age for Board members is 67 years, but 70 years for members up for re-election who joined the Board before 26 August 2003.

More information at www.nkt.dk

The rules for the election of employees to and representation on the NKT Board of Directors can be found at NKT's website.

On completion of the sale of NKT Flexibles the employee-elected Board member Gunnar Karsten Jørgensen will leave the Board and be replaced by his deputy from NKT Cables.

The Executive Management Board consists of 3 persons headed by President and Chief Executive Officer Thomas Hofman-Bang, as well as Executive Director; CFO, Michael Hedegaard Lyng and Executive Director; CTO, Søren Isaksen. The Group's business units are all headed by separate chief executive officers reporting to the Executive Management Board.

A profile of the Executive Management Board and the Staff Managers at NKT Holding is also contained on page 43 of the 2011 Annual Report.

Activities

The Board of Directors holds a yearly minimum of 6 ordinary meetings - in February/March (annual report), before and after the Annual General Meeting, and in May, August and November (interim reports Q1, Q2 and Q3). Extraordinary meetings are held if necessary. 7 Board meetings were held in 2011 and attendance was 90%.

Assessment

The Board of Directors performs an annual self-assessment, and in advance of this it is discussed whether external assistance should be used for the assessment. The purpose of the assessment is to assess the contribution of the individual member; identify the Board's strengths, and direct attention towards future areas of focus in the work of the Board. For 2011 the assessment was performed by the Chairman at a Board meeting at the start of 2012 and the results were discussed. The assessment showed that the working climate on the Board remains frank and positive, which ensures effective collaboration and good use of the Board's collective competences and broad-based experience.

In continuation of the Board of Directors' self-assessment an assessment is also performed of the Executive Management Board, partly in relation to the interaction between both Boards and partly in relation to the competences of the individual executives. The assessment takes the form of a general discussion among the members of the Board of Directors, after which the conclusions are transmitted by the Chairman to the Executive Management Board.

