

Statutory Report on Corporate Governance 2012

This Statutory Report on Corporate Governance, cf. **Section 107(b)** of the Danish Financial Statements Act, forms part of the Management commentary in NKT's Annual Report 2012 and covers the financial period 1 January - 31 December 2012

CORPORATE GOVERNANCE

The report is divided into three sections:

1. **Corporate Governance**, describing NKT's activities pursuant to the Danish Corporate Governance recommendations.
2. **EuroSox**, describing the main elements of NKT's internal control and risk management systems in connection with financial reporting.
3. **NKT's management bodies**, describing the composition of the Board of Directors, including Board of Directors' committees and the Executive Management Board.

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

NKT is a corporation characterised by international outlook and focused on long-term industrial development based on credibility, openness, high levels of competence and quality consciousness. NKT therefore wishes to continuously provide shareholders and other stakeholders with insight into the company's operations, and also works with management systems which optimise value creation. NKT abides by the recommendations for good Corporate Governance either by following the recommendations or by explaining why a given recommendation is not followed. NKT follows 77 of the 79 recommendations but deviates from:

- The recommendation that the company's Articles of Association should stipulate a retirement age for the members of the Board of Directors.

At NKT the age for retirement is stated in the Board of Directors' rules of procedure. At the Annual General Meeting on 21 March 2013 the Board of Directors will propose that the Articles of Association be amended so that they also show the age for retirement. Going forward, the retirement age for members of the Board of Directors will be 67.

- The recommendation that the remuneration policy for the Executive Management Board should include an entitlement for the company, in exceptional cases, to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be manifestly misstated.

NKT does not currently have such a clause as the Board of Directors has not found it relevant in relation to the Executive Management Board's remuneration package. Renewed discussion of this issue is expected in i 2013.

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 Danish Corporate Governance recommendations), the Nomination Committee and the Remuneration Committee, each consisting of two members, one of whom is independent and one of whom has been a member of the Board of Directors for more than 12 years and therefore does not qualify as independent according to the definition in the recommendations.

The Audit Committee

The Board of Directors' Audit Committee has held five physical meetings and three telephone meetings. The Committee consists of the Board members Jens Due Olsen (Chairman) and Jens Maaløe (member). Jens Due Olsen has experience with industrial management and management of listed companies, and specialist expertise in economic and financial matters. Jens Maaløe's qualifications cover experience with industrial management and management of listed companies, and specialist expertise in high technology and technological development.

Nomination Committee

The Nomination Committee has held three meetings in 2012 and initiated the annual assessment of the competence, knowledge and experience of the individual members of the Board of Directors. The Committee has among other things headed the search for two new Board members in succession to Christian Kjær and Jan Trøjborg.

Remuneration Committee

The Remuneration Committee has held three meetings and has recommended Board of Directors' fees to the Board of Directors ahead of submission to the forthcoming general meeting for final approval.

NKT has a remuneration policy which is appended to the rules of procedure of the Board of Directors and of the Executive Management Board and which defines the guidelines for establishment and approval of remuneration to the Chairman, Deputy Chairman and other members of the Board of Directors and to members of the Executive Management Board. According to the policy the Chairman shall receive three times the base fee and the Deputy Chairman one and a half times the base fee and there are no adjustment mechanisms linked to the base fee. The members of the Board of Directors are not granted share warrants and there are no other variable remuneration components for the Board of Directors. The point of departure is that the base fee shall be on a par with the remuneration paid in comparable listed industrial companies. (See also Note 28 to the consolidated financial statements in the 2012 Annual Report).

In 2012 the Executive Management Board's pay was established by the Board of Directors after prior discussion in and recommendation from the Remuneration Committee. The remuneration appears in Note 28 to the consolidated financial statements in the 2012 Annual Report and consists of a fixed base salary, a short-term cash bonus, a long-term share-based incentive scheme consisting of warrants, a pension, and other customary non-monetary benefits.

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 comprise up to 50% of the individual executive's fixed annual salary, including pension. The warrants may be exercised not earlier than three years - and not later than five years after

granting. The incentive scheme appears in Notes 28 and 29 to the consolidated financial statements in the 2012 Annual Report and is disclosed directly to NASDAQ OMX Copenhagen. Severance arrangements are described in Note 28 to the consolidated financial statements in the 2012 Annual Report. The remuneration policy states that the Executive Management Board shall receive a salary which is competitive and reasonable in relation to the duties assigned and which represents an attractive long-term employment element, cf. also description of 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 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 control relating 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 that wrongful use of assets, losses and/or material errors and omissions relating to the financial reporting process will be avoided.

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

The work of the Audit Committee was established in a plan for the year which was approved by the Board of Directors in 2012. The principal components of the plan appear in the Audit Committee's calendar for the year, shown in Fig. 1. From this it can be seen that the Audit Committee must monitor the financial reporting process in conjunction with presentation of interim and annual reports. Standard procedures were established i.a. with focus on update of accounting standards, examination of items that contained material accounting estimates, one-off items, examination of post-entries/ reclassifications to interim and annual reports, and checklist concerning disclosure obligations, etc.

NKT consists of a number of legal entities which operationally are structured so that there are three business units under the parent company NKT Holding all of which are organised as subgroups with their own underlying subsidiaries. The individual business units operate with a high degree of autonomy.

The business units' subsidiaries carry on similar-type operations that are closely connected with the general activities of the unit,

which to a large degree enables establishment of similar-type systems and procedures within the individual business units. The business units therefore operate partly with the Group policies from NKT, and partly with their own policies and business procedures that reflect their individual characteristics.

NKT has a process in which strength of key controls is assessed 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. The managements of the business units are responsible for formulating and implementing relevant procedures and policies for their units and for implementing the Group policies from NKT.

NKT's EuroSox activities in 2012 and 2013

NKT is continuously focused on developing its EuroSox activities. In 2012 more than 90% of the Group's revenue was covered by the assessment and reporting procedures for the financial accounting processes. The remaining 10% related to a number of small subsidiaries which collectively were considered immaterial for the NKT Group in this context. In several of the small subsidiaries it was not possible to establish sufficient functional separation as there were too few employees. As far as possible, compensatory controls were established to reduce the risk to an acceptable level.

In 2012 NKT continued the work of strengthening key controls in the financial accounting processes, and strengthening and

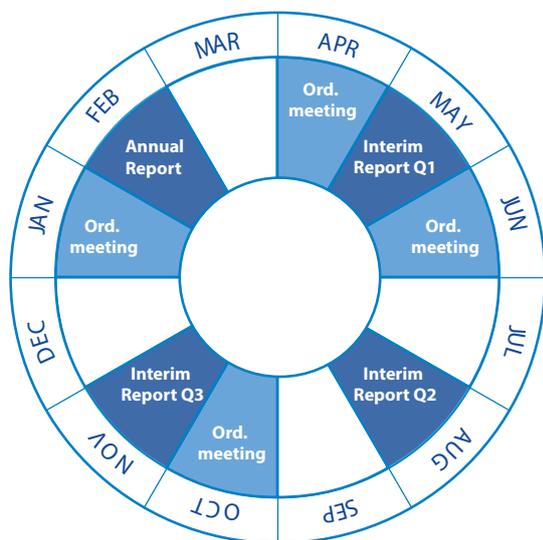
implementing general IT controls in the processes. The controls in the financial accounting processes and the general IT controls were assessed at Group and business unit level based on a risk assessment. The strength of the key controls and the general IT controls was evaluated and reported to the Executive Management Board and the Audit Committee. The process was instrumental in creating transparency and consistency for controls in the Group. In 2012 the strength of the controls was improved compared with previously, but continued focus is required on this area to ensure that the control environment and IT security remain at a high standard in the future.

In 2012 NKT continued the implementation of a new ERP system in a number of subsidiaries. The implementation phase impacted negatively on the IT control environment as a result of increased user access. In accordance with the implementation plan the general IT controls were restored when the new ERP system was in place. Compensatory controls were established during the implementation.

In 2013 NKT will continue strengthening and assessing key controls and general IT controls and consider their relevance and effectiveness.

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

Fig. 1 The work of the Audit Committee



Besides the fixed components the meetings have the following agenda:

APRIL

- Establishment of plan for year, etc.

JUNE

- Discussion of selected accounting issues
- Monitoring of internal controls in accounting processes
- Audit strategy for the year
- Recommendations from auditor
- Assessment of need for internal audit/controlling
- Discussion of IT security policy etc.
- Tax, VAT policy, etc.

OCTOBER

- Consideration of risk assessment for override of internal controls
- Discussion of auditors' records in conjunction with current audit

JANUARY

- Assessment of appropriateness of chosen accounting policies
- Monitoring of internal controls in accounting processes
- Own assessment of Audit Committee's work
- Discussion of succession plan for controlling and accounting management
- Monitoring of Group Management expenses

FEBRUARY

- EuroSox (Section 107b)
- Auditors' records
- Management's letter of representation

A number of other matters are discussed at the meetings.

Ordinary meetings: standard components

- Compliance with current financial reporting legislation
- Compliance with Finance Manual
- Whistleblower reporting
- Monitoring of auditor's supply of non-audit services
- Discussion of measures initiated by Audit Committee

Interim and annual report meetings: standard components

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

Control environment

The composition of the Group Management in 2012 was such that relevant competences concerning risk management and assessment of internal control relating to the financial reporting process were present.

The Board of Directors' Audit Committee is tasked i.a. with 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/uk/Menu/About+NKT/Management/Board+Committees/Audit+Committee. The Group Management was continuously advised of the discussions in the Audit Committee. The Audit Committee prepared the Board of Directors' discussion of risk management and internal control relating to financial reporting, and the Board's decisions in that regard.

The Executive Management Board has overall responsibility for the day-to-day maintenance of an effective control environment, together with systems for risk management and internal control relating to the financial reporting process. The managements of the Group's individual business units are responsible for ensuring an effective control environment, together with systems for risk management and internal control relating to the financial reporting process. The managements of the individual subsidiaries are responsible within their area.

The Group Management continuously assesses organisational structure and staffing in material areas, among other things as regards risk management and internal control relating to the financial reporting process.

NKT is direct and indirect owner of more than 100 businesses worldwide. Its operations are predominantly centred in Europe and North America, but activities in Asia have grown significantly in recent years. The many entities, and their geographical distribution and resulting cultural diversity, are factors which make risk management and internal control relating to the financial reporting process crucial for ensuring that the company's financial reporting presents a true and fair view.

The Group Management has approved policies, manuals, procedures etc. for material areas relating to the financial reporting process, including ethical guidelines, an accounting manual, finance policy and tax policy. On this basis, each of the business units has implemented manuals and policies that among other things include general procedures for certification, authorisation, reconciliation, results analysis and separation of duties.

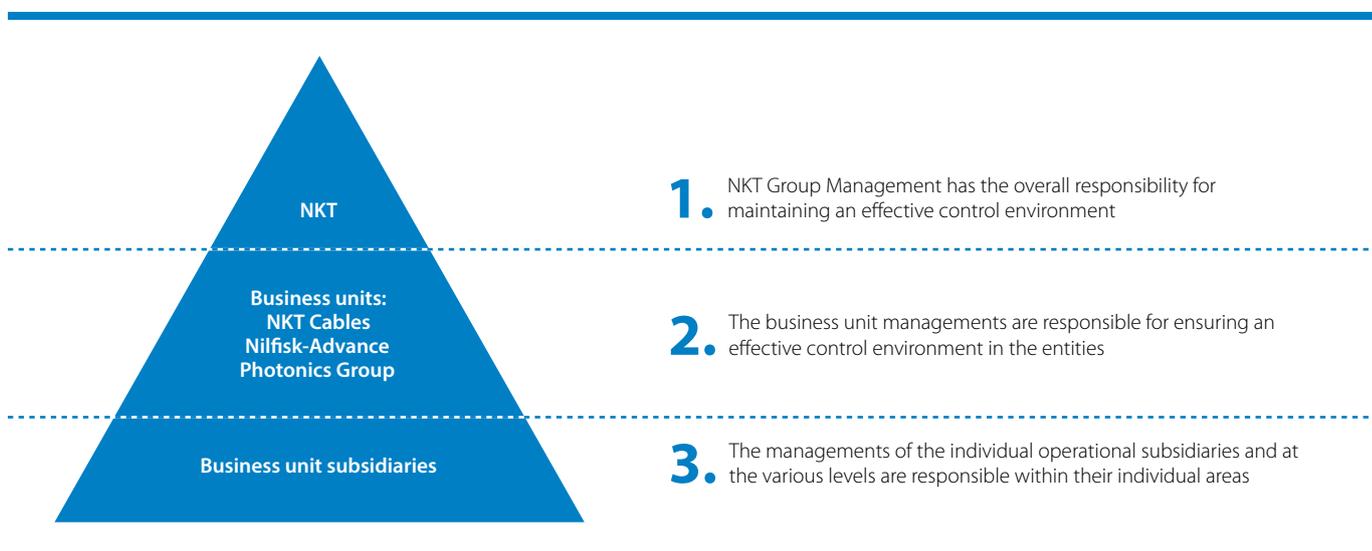
NKT performs general supervision of compliance with the stated policies. NKT further has a whistleblowing scheme whereby employees can anonymously report regarding non-compliance with rules, policies and ethical standards in a number of areas. The Audit Committee is notified quarterly about the reports received, and when dealing with reports of a material nature the Audit Committee is involved on an ongoing basis.

Risk assessment

Group Management performs a general assessment at least once a year of NKT's risks relating to the financial reporting process, which among other things embraces material acquisitions during the year. The purpose of this risk assessment is to identify the processes in the financial reporting which carry the greatest likelihood for material misstatement. There is a greater risk of error in financial entries that are based on estimates or generated by complex processes than there is for other financial entries. On this basis a plan is established for how the most material risks relating to the financial reporting process can be managed, eliminated or reduced to an acceptable level. Those areas considered to contain the greatest risk of error are described in Note 1 to the consolidated financial statements for 2012 under 'Accounting estimates and judgements'.

As part of the risk assessment, the Audit Committee and the Executive Management Board decide on the risk of fraud and on measures for eliminating or reducing these risks. This includes assessing the possibilities for non-compliance by the Executive Management Board and by the rest of the management with internal controls ('management override'). The Board of Directors is advised of this.

Fig. 2 Structure of control environment



Decisions on measures aimed at eliminating or reducing risks are based on an assessment of materiality and likelihood of the risk situation occurring. The most material commercial risks which also impact the financial reporting process can be found in 'Risk management' in the Management commentary in the 2012 Annual Report.

The most material and most high risk items in the consolidated financial statements are shown 3 below:

There is furthermore risk concerning presentation and disclosure for the notes.

Fig. 3 Material items

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

Control activities

The point of departure for the control activities is the risk assessment. The purpose of the control activities is to ensure that policies, manuals and procedures etc. defined by the Group Management in both NKT and in the individual business units are complied with and that any errors, deviations and shortcomings are prevented, discovered and rectified.

A formal reporting procedure has been established for the Group's business units which takes its point of departure in a budget process and which subsequently includes monthly realised figures, budget deviations in relation thereto, and key performance indicators. In addition, quarterly estimates for the year and rolling forecasts are updated. The reporting packages that form the basis for internal and external accounts are subject to control by accounting examination.

The business units have established their own reporting processes that satisfy the Group's reporting processes and the particular conditions in the business unit. Supplementary disclosures are obtained on an ongoing basis for compliance with any note requirements, other disclosure requirements and operational analyses.

Based on an annual Group-level top-down risk assessment of the individual business units, minimum requirements have been established for controls, reconciliations and accounting examinations for the most material subsidiaries and items in the Group. The business units further perform controlling visits

for the purpose of, among other things, testing the controls of the subsidiaries and ensuring that the companies comply with the policies and guidelines of both the Group and the business units. The results of controlling visits are reported to the local management, the management of the business unit, the Audit Committee and the external audit function. NKT performs overall supervision of the results of the visits carried out.

Each year, Management obtains a letter of representation from each NKT reporting entity certifying that the accounts are complete and present a true and fair view and that effective internal controls have been established.

Information and reporting

NKT maintains information and reporting systems intended to ensure, among other things, that the financial reporting process is correct and complete - including in accordance with legislation - and that NKT's internal control procedures are complied with.

Budgeting and forecasting are prepared on the basis of the same accounting principles as the ongoing reporting. The procedures also take account of compliance with the rules of confidentiality for listed companies, along with right-time communication to investors and other stakeholders. Policies, reporting instructions, etc. are updated when necessary.

Monitoring

The monitoring of NKT's internal controls and risk management in connection with the financial reporting process takes place continuously via formal and informal procedures and is effected at various NKT levels.

The monitoring of the Group's control environment is chiefly performed by the controlling and accounting functions and the IT functions in the respective business units in the form of controlling. Group Management annually assesses the need for internal audit. Internal audit has currently not been chosen as the control environment in the broad sense, including the controlling activities, is judged to minimise the value of internal audit.

The auditors appointed by the Annual General Meeting report in the long-form audit report to the Board of Directors concerning material weaknesses in NKT's internal controls relating to the financial reporting process. Less material matters are reported in

Of the Group's more than 100 legal entities, 39 are reporting entities subject to the requirements for self-assessment and reporting of accounting controls. This covers more than 90% of the Group's revenue

management letters to the Executive Management Board and the business unit managements. Group Management follows up on the weaknesses pointed out.

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

NKT applies uniform IFRS standards which are specified in the Group and business unit accounting manuals. Compliance with the business unit accounting manual is continuously monitored by the business unit managements, while NKT monitors overall compliance by the business units with the Group accounting manual. Annual confirmations of compliance (letters of representation) with the provisions in 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 from the subsidiaries to the business unit managements. The data are analysed and

monitored by the business unit managements, and consolidated data for the business units is reported to NKT, which analyses and monitors the consolidated data for the business units and the Group as a whole.

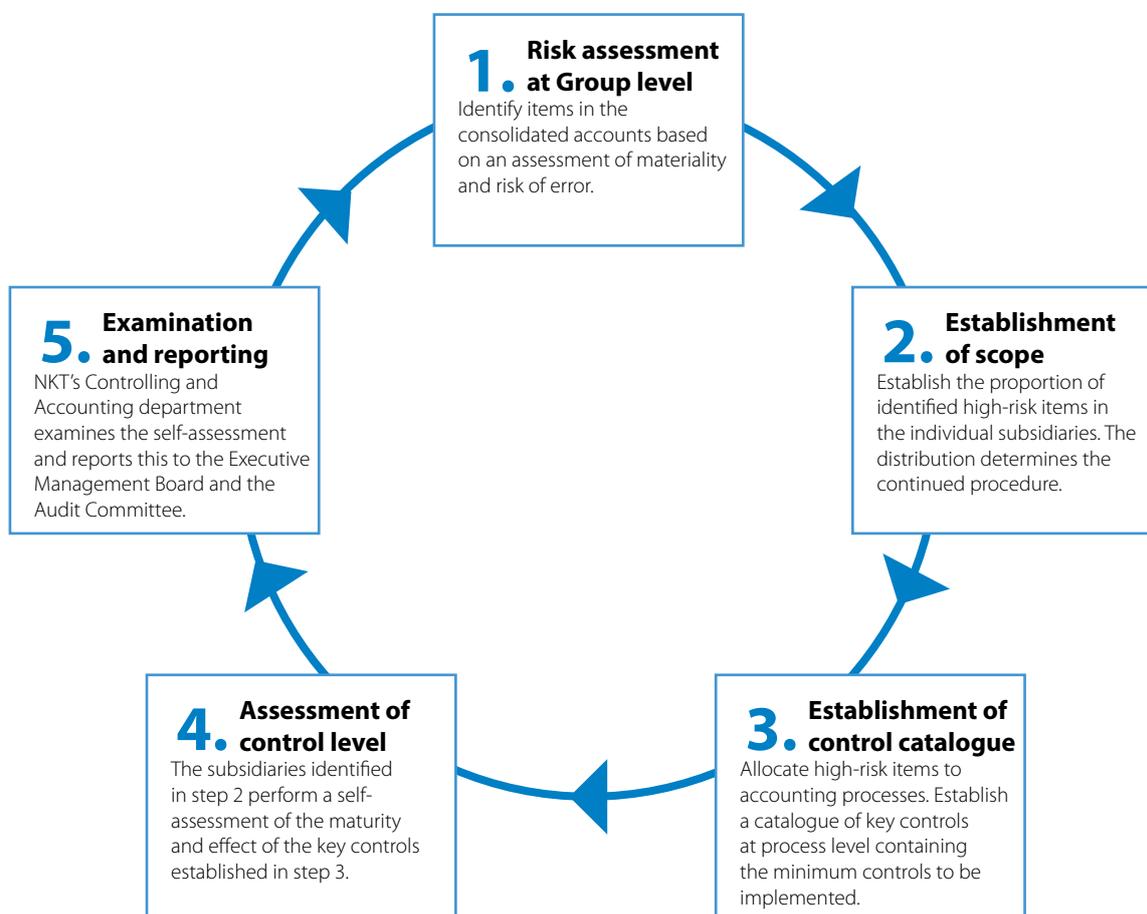
Based on an annual assessment of which items are high-risk and material in relation to the financial reporting process, NKT has a process whereby the most material and the most high-risk subsidiaries in the business units perform a self-assessment of the controls, cf. Fig. 4. 'Risk management and internal control'. The results of the self-assessment are reported to the business unit managements and to NKT. The overall picture is discussed with NKT, which collects and summarises the results for presentation to the Audit Committee. The Board of Directors is subsequently advised.

NKT'S MANAGEMENT BODIES

NKT's Group Management consists of a Board of Directors and an Executive Management Board. The Board of Directors comprises nine members (currently eight), three of whom are elected by the employees for a period of four years, and six (currently five) of whom are up for re-election each year at the Annual General

Fig. 4 Risk management and internal control procedure

Risk management and internal control relating to financial reporting is based i.a. on a five-step model:



Meeting. Seven of the eight members of the Board of Directors are men. All the members are resident in Denmark.

One member of the NKT Board of Directors elected by the Annual General Meeting has served for more than 12 years and is therefore not independent (as defined by Section 5.4.1 of the Danish Corporate Governance recommendations).

On 6 May 2012 the Board of Directors was informed of the sudden death of the Board member Jan Trøjborg. As NKT's Articles of Association do not require a Board member to be co-opted, the Board decided not to nominate a new member for election until the Annual General Meeting on 21 March 2013.

The Board of Directors is chaired by Christian Kjær. The Board members represent a broad spectrum of experience from both Danish and international businesses and have backgrounds in sectors such as traditional heavy industry, energy and high technology.

The members of NKT's Board of Directors are profiled in the 'Group Management' section of the 2012 Annual Report, along with particulars of special qualifications, independence, age, management positions, and NKT shareholdings for the current and previous year. Fees paid to each member of the Board of Directors for their work on the Board appear on the NKT website. See www.nkt.dk/uk 'About NKT', 'Management' and 'Board of Directors'.

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

As a result of NKT's divestment of NKT Flexibles, cf. company announcement No. 9 of 4 April 2012, the employee-elected Board member Gunnar Karsten Jørgensen, a fitter with NKT Flexibles, left the Board and was replaced by Niels-Henrik Dreesen, a Production Engineering Manager with NKT Cables. Niels-Henrik Dreesen was elected on 18 March 2010 as an alternate Board member at the last ordinary election of employee representatives and alternate members to the NKT Board of Directors.

The Executive Management Board consists of three persons: President and CEO Thomas Hofman-Bang, Group Executive

Director, CFO, Michael Hedegaard Lyng, and Group Executive Director, CTO, Søren Isaksen. The Group's business units are all headed by separate chief executives reporting to NKT's Executive Management Board.

The 'Group Management' section of the 2012 Annual Report also contains a brief presentation of the Executive Management Board and senior staff in the holding company.

Activities

A minimum of five ordinary meetings of the Board of Directors is held each year in conjunction with financial reporting and the Annual General Meeting. In 2012 six meetings were held.

Assessment

The Board of Directors performs a yearly self-assessment, prior to which discussion is held on whether external assistance should be used for this task. The purpose of the assessment is to identify the Board's strengths, direct attention towards future areas for focus in the work of the Board, and assess the contribution of the individual member.

In 2012 the Chairman held individual talks with the members of the Board of Directors in conjunction with the Board's self-assessment, the Executive Management Board's assessment, and planning of the Board of Directors' future composition. The results were subsequently discussed by the assembled Board at several meetings. The assessment showed that the working climate on the Board of Directors remained positive and open.

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