

STATUTORY REPORT ON CORPORATE GOVERNANCE 2013

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Pursuant to s. 107(b) of the Danish Financial Statements Act

Pursuant to s. 107(b) of the Danish Financial Statements Act, Topsil's statutory report on corporate governance forms part of the management report included in the 2013 annual report, and the reporting period is 1 January – 31 December 2013. For 2013, the report is published as a single, full report pursuant to section 107 b(1) of the Danish Financial Statements Act.

The report consists of three elements:

- Corporate Governance report
- A description of Topsil's management bodies
- An account of the main features of the Group's internal controls and risk management in relation to the financial reporting process.

CORPORATE GOVERNANCE REPORT

Pursuant to s. 107(b) of the Danish Financial Statements Act and rule 4.3 of the "Rules for issuers of Shares – NASDAQ OMX Copenhagen", listed companies must report on how they address

the most recent recommendations published by the Committee on Corporate Governance in Denmark on 6 May 2013. The recommendations are available to the public on the website of the Committee on Corporate Governance, www.corporate.governance.dk.

In this report on corporate governance, companies must apply the "comply or explain" principle according to which they must either comply with the corporate governance recommendations or explain why the recommendations are not complied with in full or in part. The purpose is to create transparency in respect of the companies' management structure, and it is up to the individual companies to assess whether it is prudent to comply with the recommendations.

The Board of Directors believes that Topsil complies with the majority of the recommendations. Topsil complies with 45 out of 47 corporate governance recommendations. The remaining two recommendations are complied with in part.

CORPORATE GOVERNANCE REPORT



The Company complies



The Company complies in part



The Company does not comply

RECOMMENDATION

TOPSIL'S COMMENTS:

1. COMMUNICATION AND INTERACTION BY THE COMPANY WITH ITS INVESTORS AND OTHER STAKEHOLDERS

1.1. Dialogue between company, shareholders and other stakeholders

1.1.1. **The committee recommends** that the Board of Directors ensure ongoing dialogue between the Company and its shareholders in order for the shareholders to gain relevant insight into the Company's potential and policies, and in order for the Board of Directors to be aware of the shareholders' views, interests and opinions on the Company.



Topsil communicates with its shareholders through the release of annual and interim financial reports and announcements. Announcements are posted on www.topsil.com immediately after publication on NASDAQ OMX Copenhagen.

Shareholders may subscribe to mailing lists for annual reports, announcements and general meetings on www.topsil.com. Shareholders may also find information on Topsil's strategy, policies and views under the menu "About" on Topsil's website. Contact information for Topsil's Investor Relations function is found under "Contacts/Investor Relations".

Topsil gives presentations to investors and financial analysts at least once every three months immediately after the publication of the quarterly financial statements. All investor presentations are posted on the website at the same time as presentations are given. In 2013, Topsil held six investor presentations.

Topsil's shareholders may present their views and opinions at the annual general meeting and may at any time contact Topsil by telephone or e-mail (investor@topsil.com).

1.1.2. **The committee recommends** that the Board of Directors adopt policies on the Company's relationship with its stakeholders, including shareholders and other investors, and that the Board ensures that the interests of the shareholders are respected in accordance with company policies.



The Company's investor relations are described in Topsil's information and communication policy, which is available on www.topsil.com under "Investors/Management and policies". Relations with other stakeholders are described in Topsil's Corporate Social Responsibility report.

Topsil conducts customer satisfaction surveys to clarify its customers' perception of the Group as a collaboration partner and receives quarterly reports from key customers in which they assess Topsil's performance.

1.1.3. **The committee recommends** that the Company publish quarterly reports.



Topsil introduced quarterly reporting as from the third quarter of 1998. Interim reports for the past five years are available on Topsil's website www.topsil.com.

RECOMMENDATION

TOPSIL'S COMMENTS:

1.2. General meeting

1.2.1. **The Committee recommends** that, when organising the company's general meeting, the board of directors plans the meeting to support active ownership.



Notice of annual general meeting to shareholders, including agenda, relevant appendices and forms for requesting admission cards/giving proxy, is forwarded by e-mail to the shareholders having subscribed to the mailing list. The notice will be published within the deadlines specified in the Articles of Association, i.e. not earlier than five weeks and not later than three weeks, through NASDAQ OMX Copenhagen, the Company's website and through announcement in the reporting system of the Danish Business Authority.

In consideration of the remaining shareholders (registered and non-registered) general meetings are announced in the Danish daily newspaper Berlingske Tidende before expiry of the notice period. All relevant documents are available on the website.

All shareholders may attend general meetings if at least three days prior to the meeting, he/she has obtained an admission card for him/herself and his/her adviser, if any, providing reference to the registration of the shares in the register of shareholders or on presentation of documentation of the shareholding.

All shareholders have the same rights and all shares carry the same voting rights without any restrictions or division into share classes.

General meetings have been conducted by physical attendance at the Company's address or at its lawyer's address. The resolution shall be made by the Board of Directors. In 2013, the annual general meeting was held at Topsil's new factory, and shareholders were given the opportunity to ask additional questions on a tour of the factory.

1.2.2. **The committee recommends** that proxies granted for the general meeting allow shareholders to consider each individual item on the agenda.



The proxy form allows shareholders to consider each individual item on the agenda.

1.3. Takeover bids

1.3.1. **The committee recommends** that the Company set up contingency procedures in the event of takeover bids from the time that the Board of Directors has reason to believe that a takeover bid will be made. According to such contingency procedures, the Board of Directors should not without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which in reality prevent the shareholders from deciding on the takeover bid themselves.



Topsil has established a contingency plan for use in case of uninvited take-over bids for the purpose of allowing shareholders to consider the terms offered on a correct and adequate basis.

RECOMMENDATION

TOPSIL'S COMMENTS:

2. TASKS AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS**2.1. Overall tasks and responsibilities**

2.1.1. **The committee recommends** that at least once a year the Board of Directors take a position on the matters related to the Board's performance of its responsibilities.



When preparing the financial calendar, the Board of Directors sets up an annual plan, which ensures an appropriate and adequate consideration of both recurring and new strategic matters.

2.1.2. **The committee recommends** that at least once a year the Board of Directors take a position on the overall strategy of the Company with a view to ensuring value creation in the company.



Topsil's Board of Directors and Management Board conduct a strategy seminar once a year to review the Group's overall strategy. The strategy for 2013-15 was reviewed in August 2013. The review did not give rise to any significant changes in the overall strategy. In connection with the release of its interim report for Q2 2013 on 27 August 2013, Topsil announced its milestones to the market.

2.1.3. **The committee recommends** that the Board of Directors ensure that the Company has a capital and share structure ensuring that the strategy and long-term value creation of the Company are in the best interest of the shareholders and the Company, and that the Board of Directors presents this in the management commentary on the Company's annual report and/or on the Company's website.



The Board of Directors assesses regularly, and specifically as part of its strategy process, whether Topsil's capital and share structures reflect the Group's operations, activities and risk profile and are consistent with the interests of the shareholders and the Group. The annual report contains an account of the evaluation of the Board of Directors.

2.1.4. **The committee recommends** that the Board of Directors annually review and approve guidelines for the Executive Board; this includes establishing requirements for the Executive Board on timely, accurate and adequate reporting to the Board of Directors.



The guidelines for the Management Board are reviewed once every year in accordance with the Board of Directors' annual plan. The guidelines include procedures for the Management Board's reporting to and communication with the Board of Directors. The guidelines for the Management Board are available to the Board of Directors and Management Board.

2.1.5. **The committee recommends** that at least once a year the Board of Directors discuss the composition of the Executive Board, as well as developments, risks and succession plans.



The Board of Directors reviews the composition, development, risks and succession plans relating to the Management Board in continuation of the Board of Directors' self-evaluation and based on the recommendations of the Nomination Committee. The review in 2013 resulted in the appointment of a new registered CFO to strengthen the Management Board.

2.1.6. **The committee recommends** that once a year the Board of Directors discuss the Company's activities to ensure relevant diversity at management levels, including setting specific goals and accounting for its objectives and progress made in achieving the objectives in the management commentary on the Company's annual report and/or on the website of the Company.



In March 2013, Topsil's Board of Directors adopted a target for diversity at the Company's management levels. Information about this target is found on www.topsil.com under "About/Management".

A description of the Company's progress in achieving the target is found in Topsil's progress report on corporate social responsibility for 2013, which is available on the website. For additional information, see 2.2.1.

RECOMMENDATION

TOPSIL'S COMMENTS:

2.2. Corporate social responsibility

2.2.1. **The Committee recommends** that the Board of Directors adopt policies on corporate social responsibility.



Topsil has defined policies consisting of principles for the Group's corporate social responsibility, which are available on Topsil's website.

Topsil adopted the UN Global Compact principles in early March 2011 and is therefore required to adhere to the ten principles of corporate social responsibility. The annual "Communication on Progress" (COP) report for 2013 was released in early March 2014.

The report is available on www.unglobalcompact.org and on Topsil's website, www.topsil.com, under "About/Corporate Social Responsibility".

2.3. Chairman and Deputy Chairman of the Board of Directors

2.3.1. **The committee recommends** appointing a Deputy Chairman of the Board of Directors who will assume the responsibilities of the Chairman in the event of the Chairman's absence, and who will also act as effective discussion partner for the Chairman.



The Board of Directors elects a Chairman and Deputy Chairman at the Board meeting held immediately after the annual general meeting. In the Chairman's absence, the Deputy Chairman assumes his/her powers and responsibilities according to the rules of procedure for the Board of Directors. The Chairman involves the Deputy Chairman in all significant issues and decision-making processes.

The tasks of the Chairman and Deputy Chairman are laid down in the rules of procedure for the Board of Directors.

2.3.2. **The committee recommends** ensuring that, if the Board of Directors, in exceptional cases, asks the Chairman of the Board of Directors to perform special operating activities for the Company, including briefly participating in the day-to-day management, a board resolution to that effect be passed to ensure that the Board of Directors maintains its independent, overall management and control function. Resolutions on the Chairman's participation in day-to-day management and the expected duration hereof should be published in a company announcement.



The Chairman does not participate in the day-to-day management of Topsil.

In 2013, the Chairman and the Deputy Chairman performed special tasks in connection with Topsil's efforts to divest its subsidiary Cemaf'70 S.A. This was based on a prior authorisation from the entire Board of Directors.

RECOMMENDATION

TOPSIL'S COMMENTS:

3. COMPOSITION AND ORGANISATION OF THE BOARD OF DIRECTORS**3.1. Composition**

3.1.1. **The committee recommends** that the Board of Directors annually accounts for

- the skills it must have to best perform its tasks,
- the composition of the Board of Directors, and
- the special skills of each member.



On its website, the Company has posted a description of the skills that are important to the composition of the Board of Directors, taking into consideration the tasks to be undertaken by the Board of Directors.

Topsil's Board of Directors is composed of members who represent general management experience in globally oriented industrial businesses, have industry insight and possess professional skills pertaining to listed companies' financial and economic matters.

The Board members' profiles containing information about experience, seniority and special skills are published in the annual report, on the Company's website and in the agenda for the annual general meeting.

3.1.2. **The committee recommends** that the selection and nomination of candidates for the Board of Directors be carried out through a thoroughly transparent process approved by the overall Board of Directors. When assessing its composition and nominating new candidates, the Board of Directors must take into consideration the need for integration of new talent and diversity in relation to age, international experience and gender.



As part of its annual self-evaluation, the Board of Directors considers its composition and skills. If it is required that the existing expertise of the Board of Directors be changed or supplemented, the Nomination Committee will prepare a profile to be presented to the entire Board of Directors for approval and will subsequently nominate suitable candidates, most often with the assistance of external advisers.

In assessing the composition of, and the selection of new candidates for Topsil's Board of Directors, priority is given to specific professional competencies and qualifications from listed companies as well as international experience. Diversity in terms of nationality, religion, political opinion, age and gender is also a priority in Topsil's diversity policy.

3.1.3. **The committee recommends** that a description of the nominated candidates' qualifications, including information about the candidates'

- other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises, be accompanied by the notice convening the general meeting when election of members to the Board of Directors is on the agenda.
- demanding organisational tasks, and information
- about whether candidates to the Board of Directors are considered independent.



The nominated candidates' backgrounds, special skills and directorships and managerial positions in other Danish and international companies are described in the agenda for the annual general meeting.

Information on the Board of Directors' independence is disclosed on the Company's website and in the agenda for the annual general meeting.

RECOMMENDATION

TOPSIL'S COMMENTS:

3.1.4. **The committee recommends** that the Company's Articles of Association stipulate a retirement age for members of the Board of Directors.



At the annual general meeting in 2011, it was resolved to add a provision to the Articles of Association stating that the retirement age of members of the Board of Directors is 70.

The year of birth of the individual Board members and the retirement age appear from the annual report and the website.

3.1.5. **The committee recommends** that members of the Board of Directors elected by the general meeting be up for election every year at the annual general meeting.



The members of the Board of Directors elected by the shareholders serve for a term of one year in accordance with article 11(3) of Topsil's Articles of Association.

3.2 Independence of the Board of Directors

3.2.1. **The committee recommends** that at least half of the members of the Board of Directors elected by the general meeting be independent persons, in order for the Board of Directors to be able to act independently of special interests.



When composing the Board of Directors, the aim is that the majority of the Board members elected by the shareholders should be independent of special interests as described in the recommendations.

To be considered independent, this person may not:

- be or within the past five years have been member of the Executive Board, or senior staff member in the Company, a subsidiary undertaking or an associate,
- within the past five years, have received larger emoluments from the Company/Group, a subsidiary undertaking or an associate in another capacity than as member of the Board of Directors,
- represent the interests of a controlling shareholder,
- within the past year, have had significant business relations (e.g. personal or indirectly as partner or employee, shareholder, customer, supplier or member of the executive management in companies with corresponding connection) with the Company, a subsidiary undertaking or an associate.
- be or within the past three years have been employed or partner at the external auditor,
- have been chief executive in a company holding cross-memberships with the Company,
- have been member of the Board of Directors for more than 12 years, or
- have been close relatives with persons who are not considered independent

Three of the four Board members elected by the shareholders are independent of special interests.

The Deputy Chairman owns more than 5% of the share capital in Topsil and is the owner of Ejendomsaktieselskabet Bangs Gård, which owns and leases the property at Linderupvej 4, DK-3600 Frederikssund, to Topsil. Topsil has been informed that the deputy chairman sold the property situated at Linderupvej 4 on 31 December 2013.

The two employee representatives are not independent.

RECOMMENDATION

TOPSIL'S COMMENTS:

3.3. Members of the Board of Directors and the number of other executive functions

3.3.1. **The committee recommends** that each member of the Board of Directors assesses the expected time commitment for each function in order that the member does not take on more functions than he/she can manage satisfactorily for the Company.



It is up to each member of the Board to assess how many directorships and managerial positions he/she is able to undertake while serving on the Board of Topsil.

Topsil believes that the current Board members' directorships and managerial positions in other companies are compatible with the Company's interests and corporate governance.

3.3.2. **The committee recommends** that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the Board of Directors:

- the position of the relevant person,
- the age and gender of the relevant person,
- whether the member is considered independent,
- the date of appointment to the Board of Directors of the member,
- expiry of the current election period,
- other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises and
- demanding organisational tasks, and
- the number of shares, options, warrants and similar in the Company, and other group companies of the Company, owned by the member, as well as changes in the portfolio of the member of the securities mentioned which have occurred during the financial year.



The recommended information concerning the Board members is found in Topsil's annual report in the section "Company information" and on www.topsil.com under "About/Management".

No options or warrants are granted to Topsil's Board members.

3.4. Board committees

3.4.1. **The committee recommends** that the Company publish the following on the Company's website:

- the terms of reference of the board committees,
- the most important activities of the committees during the year, and the number of meetings held by each committee, and
- the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications.



The need for setting up committees is assessed on a current basis.

Topsil set up an Audit Committee in 2009 as well as a Nomination Committee and a Remuneration Committee in 2012. Information on each Committee's terms of reference, main activities in 2013, the number of meetings and the names of the members and their special skills and independence is disclosed on the Company's website www.topsil.com under "About/Management".

RECOMMENDATION	TOPSIL'S COMMENTS:
<p>3.4.2. The committee recommends that a majority of the members of a board committee be independent.</p>	 <p>All members of Topsil's Audit Committee and Remuneration Committee are independent. One of the two members of the Nomination Committee is non-independent, which is considered to be acceptable since the sole responsibility of the Committee is to prepare for decisions to be made by the Board of Directors.</p>
<p>3.4.3. The committee recommends that the Board of Directors set up a formal Audit Committee composed such that</p> <ul style="list-style-type: none"> • the Chairman of the Board of Directors is not Chairman of the Audit Committee, and • between them, the members should possess such expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit aspects of companies whose shares are admitted to trading on a regulated market. 	 <p>See 3.4.1.</p> <p>The Chairman of the Company's Board of Directors is not the Chairman of the Audit Committee. Topsil believes that, based on their past and present directorships and managerial positions, the members of the Audit Committee have the necessary insight into and experience in financial and accounting matters in listed companies to be able to perform the tasks.</p>
<p>3.4.4. The committee recommends that, prior to the approval of the annual report and other financial reports, the Audit Committee monitors and reports to the Board of Directors about:</p> <ul style="list-style-type: none"> • significant accounting policies, • significant accounting estimates, • related party transactions, and • uncertainties and risks, including in relation to the outlook for the current year. 	 <p>The Audit Committee monitors the financial reporting, and the routines and procedures described form part of the annual schedule for the Audit Committee.</p>
<p>3.4.5. The committee recommends that the Audit Committee:</p> <ul style="list-style-type: none"> • annually assesses the need for an internal audit, and in such case, makes recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and • monitor the Executive Board's follow-up on the conclusions and recommendations of the internal audit function. 	 <p>As part of the annual schedule, the Audit Committee monitors Topsil's internal control systems. The Audit Committee assessed that there was no need for an internal audit for the 2013 financial year.</p>

RECOMMENDATION

3.4.6. **The committee recommends** that the Board of Directors establish a Nomination Committee chaired by the Chairman of the Board of Directors with at least the following preparatory tasks:

- describe the qualifications required by the Board of Directors and the Executive Board, and for a specific membership, state the time expected to be spent on having to carry out the membership, as well as assess the competences, knowledge and experience of the two governing bodies combined,
- annually assess the structure, size, composition and results of the Board of Directors and the Executive Board, as well as recommend any changes to the Board of Directors,
- annually assess the competences, knowledge and experience of the individual members of Management, and report to the Board of Directors in this respect,
- consider proposals from relevant persons, including shareholders and members of the Board of Directors and the Executive Board for candidates for the Board of Directors and the Executive Board, and
- propose an action plan to the Board of Directors on the future composition of the Board of Directors, including proposals for specific changes.



TOPSIL'S COMMENTS:

In November 2012, Topsil's Board of Directors set up a Nomination Committee consisting of the Chairman and the Deputy Chairman of the Board of Directors.

The terms of reference for the Nomination Committee and other relevant details are posted on the website.

The Nomination Committee has assessed that the structure, size, composition and competencies of the Board of Directors are adequate considering the needs of the Company.

An assessment of the size and competencies of the Management Board resulted in the appointment of a new CFO who was registered with the Danish Business Authority on 23 April 2013.

3.4.7. **The committee recommends** that the Board of Directors establish a Remuneration Committee with at least the following preparatory tasks:

- to recommend the remuneration policy (including the general guidelines for incentive-based remuneration) to the Board of Directors and the Executive Board for approval by the Board of Directors prior to approval by the general meeting,
- make proposals to the Board of Directors on remuneration for members of the Board of Directors and the Executive Board, as well as ensure that the remuneration is in compliance with the Company's remuneration policy and the assessment of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the Board of Directors and the Executive Board receive from other companies in the Group, and
- recommend a remuneration policy applicable for the Company in general.



In November 2012, Topsil's Board of Directors set up a Remuneration Committee consisting of the Chairman and a member of the Board of Directors.

The terms of reference for the Remuneration Committee and other relevant details are posted on the website.

RECOMMENDATION

TOPSIL'S COMMENTS:

3.4.8. **The committee recommends** that the Remuneration Committee does not consult with the same external advisers as the Executive Board of the Company.



The Company complies with the recommendation provided. If the Remuneration Committee should require advisory services, the remuneration policy requires external advisers other than those used by the Management Board to be used.

3.5. Evaluation of the performance of the Board of Directors and the Executive Board

3.5.1. **The committee recommends** that the Board of Directors establish an evaluation procedure where contributions and results of the Board of Directors and the individual members, as well as collaboration with the Executive Board are annually evaluated. Significant changes deriving from the evaluation should be included in the management commentary or on the Company's website.



The Board of Directors performs a self-evaluation once a year according to a fixed procedure.

Based on a structured process, the Board of Directors reviews Board meetings, business relations and the work performed by the Chairman, the Board members and the Management Board.

3.5.2. **The committee recommends** that in connection with preparation of the general meeting, the Board of Directors consider whether the number of members is appropriate in relation to the requirements of the Company. This should help ensure a constructive debate and an effective decision-making process in which all members are given the opportunity to participate actively.



In connection with the Board of Director's annual self-evaluation and the recommendation of candidates to be elected at the annual general meeting, it is assessed whether the number of Board members is appropriate.

As laid down in the Articles of Association, the Board of Directors consists of three to six members elected by the shareholders. In 2013, there were four Board members elected by the shareholders and two members elected by the employees. The Board of Directors considers that the current number of members is adequate in relation to the Group's size and complexity.

3.5.3. **The committee recommends** that at least once every year the Board of Directors evaluate the work and performance of the Executive Board in accordance with predefined clear criteria.



Evaluation of the work and performance of the Management Board takes place once a year and immediately after the self-evaluation of the Board of Directors according to a fixed procedure.

3.5.4. **The committee recommends** that the Executive Board and the Board of Directors establish a procedure according to which their cooperation is evaluated annually through a formalized dialogue between the Chairman of the Board of Directors and the Chief Executive Officer and that the outcome of the evaluation be presented to the Board of Directors.



Evaluation of the collaboration between the Board of Directors and the Management Board takes place once a year simultaneously with the self-evaluation of the Board of Directors through an open dialogue between the entire Board of Directors and the Management Board, and the conclusions are recorded in the minute book.

RECOMMENDATION

TOPSIL'S COMMENTS:

4. REMUNERATION OF MANAGEMENT**4.1. Form and content of the remuneration policy**

4.1.1. **The committee recommends** that the Board of Directors prepare a clear and transparent remuneration policy for the Board of Directors and the Executive Board, including

- a detailed description of the components of the remuneration for members of the Board of Directors and the Executive Board,
- the reasons for choosing the individual components of the remuneration, and
- a description of the criteria on which the balance between the individual components of the remuneration is based.

The remuneration policy should be approved by the general meeting and published on the Company's website.



Topsil adopted a remuneration policy for the Board of Directors and Management Board in 2010. The policy is posted on the Company's website.

The remuneration policy contains a description of the remuneration components.

The remuneration policy contains reasons for choosing the components and a description of the criteria forming the basis of the choice.

The remuneration policy was considered and approved by the shareholders at the annual general meeting in 2011.

4.1.2. **The committee recommends** that, if the remuneration policy includes variable components,

- limits be set on the variable components of the total remuneration package,
- a reasonable and balanced linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long terms,
- there be clarity about performance criteria and measurability for award of variable components,
- there be criteria ensuring that qualifying periods for variable components in remuneration agreements are longer than one calendar year, and
- an agreement is made which, in exceptional cases, entitles the company to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be misstated.



Topsil's remuneration policy includes variable components for the Management Board and the management team, consisting of two elements:

- A short-term, performance-related bonus calculated as a percentage of the profit for the year before tax plus a percentage of the increase in the profit for the year before tax.
- A long-term warrant programme according to which the Management Board and the management team may subscribe for shares during three-year periods

Clauses are incorporated in the CEO's and CFO's service contracts, ensuring that, in exceptional cases, the Company may reclaim in full or in part variable components of remuneration paid out on the basis of data, which prove to be manifestly misstated.

The service contract of the EVP, Director of Logistics, Sales & Marketing contains no such clause and was not renegotiated in 2013.

All members of the Management Board may be withdrawn from the existing warrant programme if they are in breach of their executive service contracts.

RECOMMENDATION	TOPSIL'S COMMENTS:
<p>4.1.3. The committee recommends that remuneration of members of the Board of Directors does not include share options.</p>	<p> According to the remuneration policy, remuneration of Board members elected by the shareholders does not include share options, warrants, shares at a discount or any other incentive schemes. Board members elected by the employees participate on an equal footing with other employees in bonus schemes, if any, and receive employee shares pursuant to s. 7(A) of the Danish Tax Assessment Act, if and when such scheme is introduced.</p>
<p>4.1.4. The committee recommends that if share-based remuneration is provided, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should have a maturity of at least three years from the date of allocation.</p>	<p> The conditions of Topsil's warrant programmes are in compliance with the recommendations.</p> <p>Details on exercise dates, exercise prices and other conditions are provided in the Company's Articles of Association, which are available on Topsil's website under "Investors/Publications" and "About/Management".</p>
<p>4.1.5. The committee recommends that agreements on termination payments should not amount to more than two years' annual remuneration.</p>	<p> The Management Board is not entitled to any kind of remuneration upon retirement from their positions, other than salaries in the period of notice.</p> <p>No arrangements of an unusual nature in respect of severance payments were made in 2013.</p>
<p>4.2. Disclosure of the remuneration policy</p>	
<p>4.2.1. The committee recommends that the Company's remuneration policy and compliance with this policy be explained and justified annually in the Chairman's statement at the Company's general meeting.</p>	<p> The remuneration policy was mentioned by the Chairman at the annual general meeting in connection with fees for the Board of Directors being proposed for 2013.</p>
<p>4.2.2. The committee recommends that the proposed remuneration for the Board of Directors for the current financial year be approved by the shareholders at the general meeting.</p>	<p> According to the Company's Articles of Association, remuneration to the Board of Directors for the current financial year must be approved by the shareholders.</p>
<p>4.2.3. The committee recommends that the total remuneration granted to each member of the Board of Directors and the Executive Board by the Company and other companies in the Group, including information on the most important contents of retention and retirement/resignation schemes, be disclosed in the annual report and that the linkage with the remuneration policy be explained.</p>	<p> In compliance with IFRS, the remuneration paid to the Chairman, Deputy Chairman and ordinary members of the Board of Directors is disclosed in the annual report in a note and is specified on the Company's website.</p> <p>Remuneration paid to the Management Board is disclosed in the same note. In respect of the need to ensure confidentiality about remuneration to individual members of the Management Board, such remuneration is not specified.</p> <p>For information on resignation schemes, see 4.1.5.</p>

RECOMMENDATION

TOPSIL'S COMMENTS:

5. FINANCIAL REPORTING, RISK MANAGEMENT AND AUDITS**5.1. Identification of risks and transparency about other relevant information**

5.1.1. **The committee recommends** that the Board of Directors in the management commentary review and account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the Company's risk management.



Risks relating to the financial reporting process form part of the Audit Committee's annual schedule and are reported to the Board of Directors.

Management has also prepared a description of the business risks, which is reviewed on an on-going basis and which forms an integral part of Management's annual revision of the Company's strategy. Information about financial risks is provided in accordance with IFRS in the annual report.

5.2. Whistleblower scheme

5.2.1. **The committee recommends** that the Board of Directors decide whether to establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.



In 2013, on the recommendation of the Audit Committee, Management assessed that a whistle-blower scheme should be established. The Company aims to establish the scheme in 2014.

5.3. Contact to auditor

5.3.1. **The committee recommends** that the Board of Directors ensure regular dialogue and exchange of information between the auditor and the Board of Directors, including that the Board of Directors and the Audit Committee at least once a year meet with the auditor without the Executive Board present. This also applies to the internal auditor, if any.



The auditors are invited to participate in all Audit Committee meetings to ensure a good collaborate setting and a high level of information.

Minutes of discussions with the auditors are submitted to the entire Board of Directors to provide the Board members with an optimum basis for decision-making.

Furthermore, the auditors participate in the Board meetings at which the financial statements are considered and approved and if the Board of Directors or the auditors request that the auditors be present.

The Chairman meets with the auditors once every year without the Management Board present in connection with the audit of the annual report.

Topsil has not established an internal audit function.

5.3.2. **The committee recommends** that the audit agreement and auditors' fee be agreed between the Board of Directors and the auditor on the basis of a recommendation from the Audit Committee.



This forms part of the annual schedule for the Audit Committee.

The Audit Committee negotiates the audit agreement for a term of one year and submits it to the Board of Directors for approval.

TOPSIL'S MANAGEMENT

Topsil's management comprises the Board of Directors and the Management Board.

Board of Directors

The Board of Directors has the overall responsibility for the management of the Group and supervises the Management Board. The Board of Directors lays down the policies for the Company's business strategy, organisation, accounting and financial affairs and appoints a Management Board to be in charge of the day-to-day operations of the Group.

The Board of Directors is made up of four members elected by the shareholders and two members elected by the employees. An overview of the Board of Directors and the Management Board can be found in the annual report under "Company information".

Pursuant to the Articles of Association, the members of the Board of Directors elected by the shareholders are elected for terms of one year at the annual general meeting. The term for the current Board of Directors expires on 28 April 2014 and the members are eligible for re-election. According to the Articles of Association, the retirement age for Board members is 70 years.

Board members elected by the employees serve for a term of four years, as laid down in the Danish Companies Act. Members elected by the employees have the same rights, duties and responsibilities and they receive the same basic fees as the other members of the Board of Directors. The term of the current Board members elected by the employees expires in 2015. Further details on the rules for election of employee representatives can be found on the Company's website under "About/Management".

When composing the Board of Directors, the aim is for the majority of the Board members elected by the shareholders to be independent of special interests relative to the Group, major shareholders, chief suppliers and key accounts.

Three of the four Board members elected by the shareholders are independent of special interests. Topsil's Deputy Chairman, Eivind Dam Jensen, is not independent, as he controls 14.4% of the capital in Topsil and owns and leases the property at Linderupvej 4, 3600 Frederikssund, Denmark to Topsil. The transactions are disclosed in a separate note to the financial statements.

Employee representatives are not considered to be independent due to their employment relationship with Topsil.

When composing the Board of Directors, it has been considered important that the members have general management experience in globally oriented industrial businesses, have industry insight and possess professional skills pertaining to listed companies' financial and economic matters.

Board meetings are held at least five times a year. The Board of Directors follows an annual schedule fixed each year in November together with the financial calendar and otherwise convenes as

and when deemed necessary. In 2013, seven Board meetings and one strategy seminar were held determining the most important tasks in relation to the overall strategic management.

The Board of Directors conducts its business in accordance with the rules of procedure, which comply with the provisions of s. 130 of the Danish Companies Act applicable to listed companies. Among other things, the rules of procedure contain guidelines for the division of responsibilities between the Board of Directors and the Management Board, and provide for the application of minute books, a register of shareholders and other protocols. The rules of procedure determine the Board of Directors' duties to actively discuss the Company's organisation and internal control procedures as well as its duties to actively follow up on plans, budgets and the cash position, as well as other important issues.

Evaluation of the Board of Directors and Management Board

The evaluation of the working methods, skills, efforts, interaction and performance of the Board of Directors and Management Board forms part of the annual schedule for the Board of Directors and is included as an item on the agenda of an annual Board meeting.

The evaluation is performed by the Chairman and based on a working document filled in by each Board member. The individual items are discussed openly among the members of the Board of Directors and the Management Board and the conclusions are recorded in the minute book. The self-evaluation is considered to be a tool for mapping the strengths and weaknesses of the management. It is also used as the recruitment base for new Board members and selection of future focus areas for the Board work. In 2013, the self-evaluation did not give rise to any significant changes in focus areas or the composition of the Board of Directors.

Board committees

Topsil set up an Audit Committee in 2009 and a Nomination Committee and a Remuneration Committee in 2012.

Audit Committee

The Audit Committee monitors the Group's financial reporting, accounting policies, internal control procedures and the framework for the external auditors. Topsil's Audit Committee held eight meetings in 2013.

The committee consists of Michael Hedegaard Lyng as chairman and Jørgen Frost as member. The Audit Committee members are appointed by the Board of Directors from among its members, and in compliance with Danish law, at least one of the two members must be an accounting expert. The Committee conducts annual self-evaluation to assess each member's performance.

The Audit Committee has prepared its terms of reference and a detailed annual schedule. According to the terms of reference, the tasks of the Audit Committee include approval of relevant guidelines and policies and discussions of material accounting policies applied by the Group. The Committee considers on an

ongoing basis whether individual controls should be extended or tightened to ensure compliance and improvement of the internal control procedures in the Group companies.

Further details on the Audit Committee and its terms of reference can be found on the Company's website.

Nomination committee

In November 2012, Topsil set up a Nomination Committee consisting of the Chairman, Jens Borelli-Kjær, and the Deputy Chairman, Eivind Dam Jensen of the Board of Directors. The Nomination Committee meets when deemed necessary or appropriate taking into account the Company's needs, however, at least once a year. The Committee held one meeting in 2013.

It is the duty of the Nomination Committee to annually evaluate the skills, knowledge and experience of the individual members of the Board of Directors and the Management Board, to ensure that plans and processes are always in place to provide for appropriate succession planning in respect of positions of major importance, and to look for and assess potential new candidates.

Further details on the Nomination Committee and its terms of reference can be found on the Company's website.

Remuneration committee

Also in November 2012, Topsil set up a Remuneration Committee consisting of the Chairman of the Board of Directors, Jens Borelli-Kjær, and another member of the Board, Michael Hedegaard Lyng. The members of the Remuneration Committee are appointed by and from amongst the members of the Board of Directors and meet when deemed necessary or appropriate in relation to the Company's needs, however, at least once a year. The Committee held one meeting in 2013.

It is the duty of the Remuneration Committee to ensure that the remuneration and other benefits to which the members of the Board of Directors and the Management Board are entitled is consistent with the Company's remuneration policy and the performance of the person concerned. The Remuneration Committee submits proposals to the Board of Directors on remuneration for Board members. Finally, the Committee recommends the remuneration policy, including the overall principles of incentive pay schemes for the Management Board, for the approval by the entire Board of Directors prior to approval of the shareholders in general meeting.

Further details on the Remuneration Committee and its terms of reference can be found on the Company's website.

Remuneration policy

Topsil's remuneration policy for the Board of Directors and the registered executive officers was approved by the shareholders in 2011 and is posted on the Company's website. It is the aim of the Board of Directors that the remuneration policy reflects the interests of the shareholders and the Company and helps promote long-term goals. Furthermore, the Company seeks to offer a compensation package conforming to market standards for the Board of Directors and the Management Board to retain the current management and attract new qualified candidates.

Management Board

Topsil's Management Board comprises three registered executive officers, the CEO, the EVP, Sales & Marketing, and the CFO. The Management Board is responsible for the day-to-day management of the Company in accordance with the guidelines laid down by the Board of Directors. Also, the Management Board is responsible for submitting proposals for the Group's overall strategies, action plans, objectives and operating and investment budgets to the Board of Directors.

Directors' fees

In 2013, the members of the Board of Directors of Topsil each received a fixed annual remuneration of DKK 200,000 for the financial year 2012. The Chairman received two and a half times the basic remuneration and the Deputy Chairman 1.75 times the basic remuneration for their additional Board duties. The members of the Audit Committee received DKK 50,000 and the Chairman received double that amount. The members of the Committee will not receive separate remuneration for their work in subsidiaries or on the Nomination and Remuneration Committees.

Total remuneration to the Board of Directors came to DKK 1.8 million, as specified in a separate note to the annual report.

At the annual general meeting held on 22 April 2013, the shareholders passed a resolution to reduce Board fees for the 2013 financial year by 10% in light of the Company's situation.

The members of the Board of Directors receive no options, bonus or any other performance-related pay and are not covered by Topsil's pension scheme.

Remuneration to the Management Board

The Board of Directors believes that a combination of fixed and performance-based compensation to the Management Board helps the Company to attract and retain the best qualified executive officers while at the same time encouraging sustained long-term value creation for the shareholders. Performance related incentive schemes contribute to promoting behaviour that supports the achievement of the Company's objectives. Against this background, the Board of Directors has resolved to introduce incentive remuneration to the Management Board and other managerial employees of the Group.

The Management Board's compensation package comprises four elements: a fixed basic salary including company car, telephone, etc., a bonus based on the financial results achieved, pensions and a share option scheme.

In 2013, the bonus scheme for the CEO comprises a bonus of 1% of profit before tax and 4% of the increase in the profit before tax relative to the previous year.

For the EVP, Sales & Marketing, and the CFO the corresponding rates are 0.7% and 2.8%, respectively.

Topsil's CEO and its EVP, Director of Logistics, Sales & Marketing will not receive any bonus earned until in 2015 in light of the Company's situation.

Topsil's Management Board and a number of managerial employees have been granted warrants. The Management Board's share of these warrants, the terms and conditions and their valuation are disclosed in a separate note to the annual report. Topsil's current incentive scheme and guidelines have been approved by the shareholders and are available on Topsil's website under "About/Management/Incentive scheme 2012 & 2013". The criteria of the option scheme comply with the recommendations of the Committee on Corporate Governance in Denmark issued on 6 May 2013.

In 2013, the total remuneration to the Management Board came to DKK 7.1 million as specified in note 4 to the financial statements. Topsil did not provide any substantial or atypical contributions to non-pay benefits, severance plans, etc. to the Management Board in 2013, but the Management Board increased from two to three persons.

Material agreements with Management

Other than as provided above, the Group has not entered into any material agreements with the Management.

The members of the Management Board are employed under executive service contracts. The service contract for the CEO is terminable by the CEO giving a notice of three months. Termination by the Company is subject to twelve months' notice. There will be no extension of this period of notice in the event of a change of control of the Company. The CEO is subject to a noncompetition clause.

The executive service contract for the EVP, Sales & Marketing is terminable by the EVP giving six months' notice, whereas termination by the Company is subject to twelve months' notice.

The executive service contract for Topsil's CFO is terminable by the CFO giving three months' notice or the Company giving 12 months' notice.

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS

The Board of Directors of Topsil has the overall responsibility for the establishment of an efficient risk management system, comprising systematic internal controls and follow-up. The Audit Committee monitors risk management and internal controls in relation to the financial reporting process.

General risk assessment and management

As part of the Board of Directors' annual strategy review, Management conducts an overall risk assessment for the Group in order to determine which processes and factors, internal as well as external, could potentially affect the Group's business platform and development.

The risk assessment mainly comprises identification of business risks and control measures are identified for the most significant risks, e.g. in the form of action plans, to reduce and handle risks.

Risk assessment and internal control systems at Topsil

In connection with the current follow-up on the Group's strategy and development, Management assesses the identified risks and considers any new risks during the strategy period.

The objective of risk management is not to eliminate all risks, but to actively determine which risks are acceptable to and manageable by the Group and which risks to avoid entirely. Risk management is an integral part of the day-to-day business management and is subject to continuous review by Management.

In respect of the special risks identified by Topsil, reference is made to the pages on "Special risks" and note 32 to the annual report about "Financial risks and financial instruments".

The Group has chosen to arrange for insurance cover within a number of general areas, including all risks insurance (machinery, equipment, inventories and business interruption), transport insurance, professional and product liability insurance and directors' and officers' liability insurance. In addition, the Group has taken out workers' compensation insurance based on local conditions.

The Group operates with a low-risk profile and for this reason currency, interest rate and credit risks arise only in connection with commercial relations. It is the Group's policy not to actively speculate in financial risks.

Due to the nature of its operations and financing, the Group is exposed to fluctuations in exchange rates and interest rates. The Group manages its financial risks by means of a model to manage its cash forecasting.

The Group's currency, interest rate, credit and liquidity risks are described in a note to the consolidated financial statements.

Risk assessment relating to the financial reporting process

The overall risk assessment also comprises risks relating to financial reporting and hence matters which could affect the completeness, accuracy and valuation-related matters relative to the Group's financial reporting. The risk assessment also comprises the risk of loss or misuse of assets.

Control system

Topsil's CEO is responsible for maintaining efficient internal controls. A management team consisting of seven functional managers and specialists, who are responsible for the internal control of their respective area of responsibility, such as sales, logistics, procurement, production, quality assurance, finance and IT, reports to the CEO. A description of the management structure at Topsil can be found on the Company's website.

All subsidiaries and business units of the Group have appropriate internal controls, covering the most significant risks. Internal policies and procedures, manuals and legislation and other external regulation form the basis of the internal control environment, and the Group's employees are held responsible through organisational structures in the Group with clearly defined responsibilities and authority. The Group finance function

performs current “controlling” activities in the subsidiaries and the results are reported to Management.

Control measures may alleviate the identified risks and ensure compliance with the basic criteria for financial reporting. The Group’s control measures comprise general as well as detailed controls to prevent, identify and correct errors and irregularities. The Group has the following overall control measures:

- Manual controls — examples of important manual controls are signed bookkeeping lists, reconciliations, rights of access, master data and segregated functions to the extent permitted by the size of the organisation.
- Programmed controls – examples of important programmed controls are validation of entries, including that data is only registered and applied centrally, automatic reconciliation of invoices with purchase orders and other reconciliation between the ERP modules.
- General IT control – examples of important IT controls are user administration, production and test environment and backup procedures.

Documentation of procedures is part of the internal control system and consists of flowcharts of procedures and descriptions of control measures. The process comprises formal as well as informal procedures used by Management, process owners and control operators, including assessments of results relative to budgets, strategy plans and selected key performance indica-

tors (KPIs). The Group has established procedures to provide Management with a basis for assessing the Group’s financial position.

These procedures/reports comprise i.a.:

- A review of strategic and business objectives at least once a year.
- A formalised annual budget with forecast and estimation procedures.

Furthermore, management reporting is prepared, comprising:

- Financial results and financial position, including analysis of cash flows and financial structure in the parent company and subsidiaries.
- Comparison of budgeted financial results, results from previous years and actual results.
- Project management and cost control as well as current project reporting, project follow-up and review of accounting policies and estimates.

Also, the external auditors report to Management and the Audit Committee who assess the results of current examinations performed to determine to what extent Management and the Audit Committee can rely on the reports/processes which are primarily prepared and performed by the finance department.

