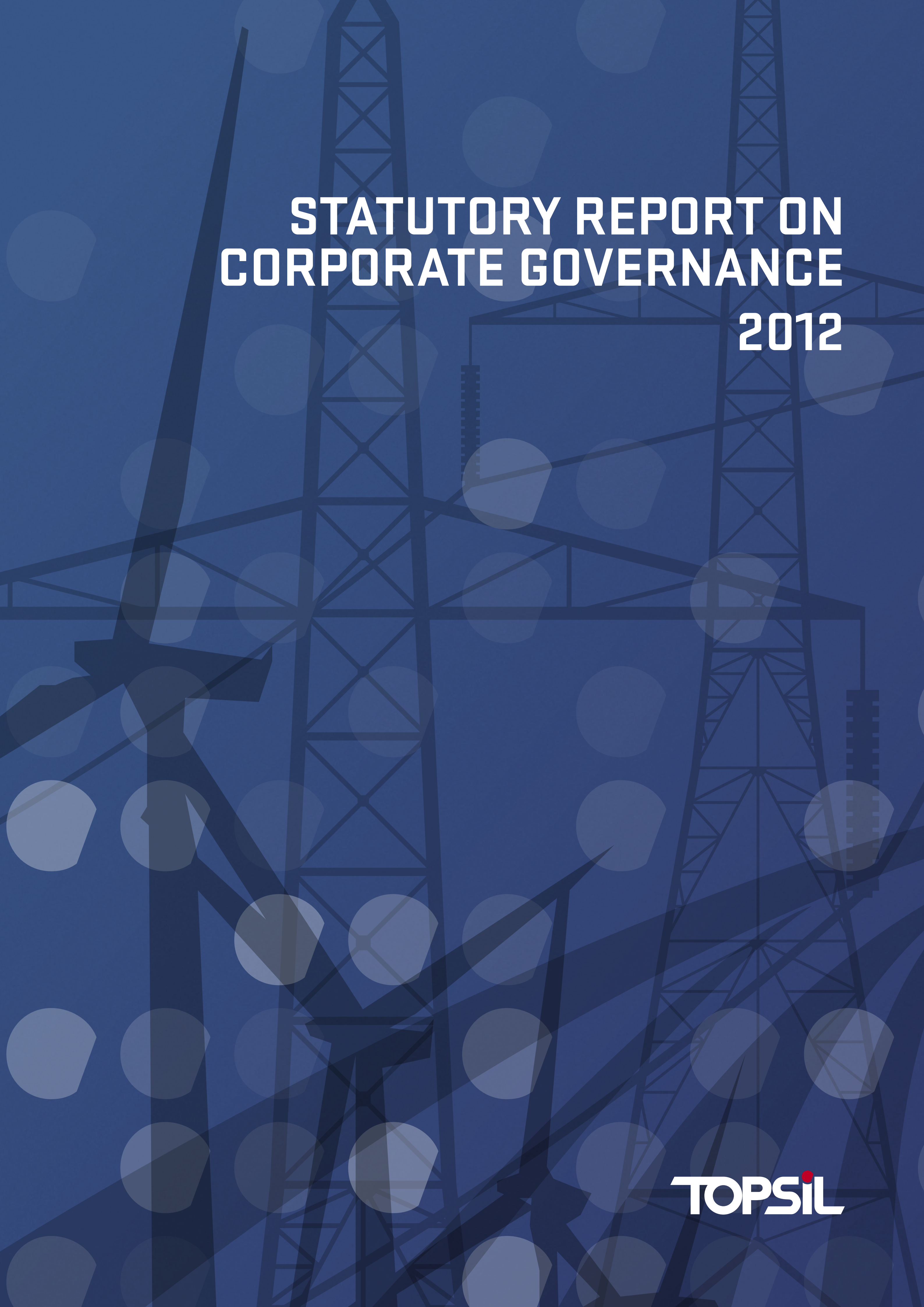

STATUTORY REPORT ON CORPORATE GOVERNANCE 2012

TOPSIL

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Pursuant to s. 107(b) of the Danish Financial Statements Act, this statutory report on corporate governance forms part of the management report included in the 2012 annual report. The reporting period is 1 January – 31 December 2012.

The report consists of three elements:
- Corporate Goverance
- A description of Topsil's Management
- An account of the main features of the Group's internal controls and risk management in relation to the financial reporting process.

CORPORATE GOVERNANCE

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 16 August 2011. 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.

Topsil's statutory report on corporate governance, including a consideration of each item under the recommendations, can be found on the Company's website, **www.topsil.com/media/105759/corporategovernanceuk2012.pdf**

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 22 April 2013 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% 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 2012, 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 2012, 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 2012.

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 no meetings in 2012.

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. 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 2012.

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.

Further details on the remuneration policy can be found on the website under "Investors".

Management Board

Topsil's Management Board comprises two registered executive officers, the CEO and the EVP, Sales & Marketing. 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 2012, the members of the Board of Directors of Topsil each received a fixed annual remuneration of DKK 200,000 for the financial year 2011. 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.

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 2012, 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, the corresponding rates are 0.7% and 2.8%, respectively.

Bonus is renegotiated once a year. No bonus was paid for the financial year 2012.

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'. The criteria of the option scheme comply with the recommendations of the Committee on Corporate Governance in Denmark issued on 1 April 2010.

In 2012, the total remuneration to the Management Board came to DKK 4.3 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 2012.

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 non-competition 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.

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 35 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, debtor 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 indicators (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.