



CORPORATE GOVERNANCE **2011**

TOPSIL

TOPSIL HAS A BOARD OF DIRECTORS AND A MANAGEMENT BOARD. HENCE, THE BOARD OF DIRECTORS CONSTITUTES THE "SUPREME GOVERNING BODY" AS WELL AS THE "CENTRAL GOVERNING BODY".



The Company complies



The Company complies in part



The Company does not comply



RECOMMENDATION

RECOMMENDATION

1. THE ROLE OF THE SHAREHOLDERS AND THEIR INTERACTION WITH THE MANAGEMENT OF THE COMPANY

1.1. DIALOGUE BETWEEN THE COMPANY AND ITS SHAREHOLDERS

1.1.1. The Committee **recommends** that the central governing body, for example through investor relations activities, ensure an ongoing dialogue between the company and its shareholders in order that the central governing body knows the shareholders' attitude, interests and views in relation to the company and that investor relations material be made available to all investors on the company's website.



Topsil communicates with its shareholders through the release of annual and interim financial reports and announcements via e-mail. Announcements are posted on the website immediately after publication on NASDAQ OMX Copenhagen.

Shareholders may subscribe to mailing lists for annual reports, announcements and general meetings on the website which also displays contact information for Topsil's Investor Relations function.

Topsil gives presentations to investors, financial analysts and the press 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 2011, Topsil gave eight investor presentations and held about ten meetings with equity analysts.

Topsil's shareholders may present their views at the annual general meeting. Shareholders can find relevant information on the annual general meeting on the Company's website.

1.2. CAPITAL AND SHARE STRUCTURES

1.2.1. The Committee recommends that the central governing body every year evaluate whether the company's capital and share structures continue to be in the interests of the shareholders and the company and account for this evaluation in the management commentary in the annual report and/or on the company's website



The Board of Directors regularly performs assessments of 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. The Board of Directors believes that the current capital resources have been strengthened sufficiently to finance the adopted growth strategy for 2010-2012.

Furthermore, an authorisation has been granted by the Company's shareholders to issue 196,109,849 new shares until 1 April 2013 in one or more issues with or without preemptive rights to the Company's existing shareholders.



1.3. ANNUAL GENERAL MEETING

1.3.1. The Committee **recommends** that the supreme governing body and the executive board promote active ownership, including shareholders' attendance at general meetings.



Topsil's annual general meeting is held before the end of April.

The date of the annual meeting appears from the financial calendar which is published before the end of the previous calendar year.

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 a nationwide newspaper 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.

1.3.2. The Committee **recommends** that the central governing body resolve or submit to the general meeting the question whether the general meeting shall be conducted by physical attendance or as a partly or entirely electronic general meeting.



So far, general meetings have been conducted by physical attendance at Topsil's address or at its lawyer's address; Plesner, Amerika Plads 37, Copenhagen. Such resolution is to be made by the Board of Directors.

1.3.3 The Committee **recommends** that proxies given to the supreme governing body allow shareholders to consider each individual item on the agenda.



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

Pursuant to the Articles of Association, shareholders may vote by a proxy, who must produce a written and dated instrument of proxy.

1.3.4. The Committee **recommends** that all members of the supreme governing body and the executive board be present at the general meeting.



The Company seeks to organise general meetings so as to ensure that all members of the Board of Directors and Management Board are present. In 2011, the entire Board of Directors and Management Board were present during the general meeting.



1.4. TAKEOVER BIDS

1.4.1. The Committee **recommends** that the central governing body, from the moment it obtains knowledge that a takeover bid will be submitted, do 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.



The Board of Directors is aware of its obligations in case of the submission of a takeover bid for Topsil's shares and will not make any decisions on behalf of the shareholders which will prevent the shareholders from deciding on the takeover bid.

1.4.2. The Committee recommends that the central governing body give the shareholders the opportunity to decide whether or not they wish to dispose of their shares in the company under the terms offered.



If Topsil should receive a public takeover bid, the Board of Directors would convene an extraordinary general meeting to present the bid to the shareholders together with its recommendations.

2. THE ROLE OF STAKEHOLDERS AND THEIR IMPORTANCE TO THE COMPANY AND THE COMPANY'S CORPORATE SOCIAL RESPONSIBILITY

2.1. THE COMPANY'S POLICY IN RELATION TO THE STAKEHOLDERS AND CORPORATE SOCIAL RESPONSIBILITY

2.1.1. The Committee **recommends** that the central governing body identify the company's key stakeholders and their main interests in relation to the company.



It is Topsil's mission to create value and profitable growth in collaboration with its stakeholders. The primary stakeholders are defined as

- Customers
- Shareholders
- Suppliers
- Employees
- Relevant authorities
- Relevant media

2.1.2. The Committee **recommends** that the central governing body adopt a policy on the company's relationship with its stakeholders, including the investors, and ensure that the interests of the stakeholders are respected in accordance with the company's policy on such issues



The Board of Directors supervises the Management Board's management of the company and ensures that good and constructive relations exist with investors and other stakeholders and that the interests and roles of stakeholders are respected. The Company's investors relations are described in Topsil's information and communications policies, and its stakeholder relations are described in Topsil's CSR policy.

Topsil prepares customer satisfaction analyses to clarify its customers' impression of the Group as a collaboration partner.



2.2. CORPORATE SOCIAL RESPONSIBILITY

2.2.1. The Committee **recommends** that the central governing body adopt a policy on corporate social responsibility.



Topsil has prepared a corporate social responsibility (CSR) policy for the Group which is available on its website.

Topsil adopted the UN Global Compact principles in early March 2011 and submitted its first annual 'Communication on Progress' (COP) report in late February 2012. The report constitutes Topsil's CSR report for 2011 prepared in accordance with the COP guidelines.

The report is available on www.unglobalcompact.org and on Topsil's website www.topsil.com under corporate responsibility.

3. OPENNESS AND TRANSPARENCY

3.1. DISCLOSURE OF INFORMATION TO THE MARKET

3.1.1. The Committee **recommends** that the central governing body adopt a communication strategy.



Topsil's Board of Directors has adopted a communication policy setting out guidelines for Topsil's communication with its investors. The communication policy is available on the Company's website.

In addition, Topsil is comprised and regulated by the disclosure requirements applicable to listed companies.

3.1.2. The Committee **recommends** that information from the company to the market be published in both Danish and English.



Announcements are published in Danish and English and are available on the website immediately after publication on NASDAQ OMX Copenhagen A/S.

3.1.3. The Committee **recommends** that the company publish quarterly reports.



Topsil introduced quarterly reporting as from the third quarter of 1998. Interim reports as from the first quarter of 1999 are available on the website.

4. THE TASKS AND RESPONSIBILITIES OF THE SUPREME AND THE CENTRAL GOVERNING BODIES

4.1. OVERALL TASKS AND RESPONSIBILITIES

4.1.1. The Committee **recommends** that the central governing body determine the company's overall strategy at least once every year with a view to sustaining value creation in the company.



The overall tasks and responsibilities of the Board of Directors are laid down in the rules of procedure for the Board of Directors, which are available to the Group management. Recurring items to be dealt with by the Board of Directors are laid down in the annual schedule for Management to ensure that, for example, the Company's strategy is discussed and defined.

Topsil's Board of Directors and Management Board conduct a strategy seminar once every year to discuss and define their most important tasks in relation to the Group's overall strategy. In 2011, the strategy was discussed in December.



RECOMMENDATION

TOPSIL'S COMMENTS:

4.1.2. The Committee **recommends** that the supreme governing body at least once every year discuss and ensure that the necessary qualifications and financial resources are in place in order for the company to achieve its strategic goals.



In connection with the annual revision of the strategy, Topsil discusses and considers whether the Company has the qualifications and capital resources required to achieve its strategic goals.

4.1.3. The Committee **recommends** that the supreme governing body at least once every year define its most important tasks related to the financial and managerial control of the company, including how to supervise the work of the executive board



Financial controls are conducted in accordance with the Audit Committee's terms of reference and annual schedule. The Audit Committee reports to the Board of Directors on a current basis.

The managerial control has been set out in the rules of procedure for the Board of Directors, and procedures have been laid down for the Management Board's reporting to the Board of Directors, including regular monthly reporting. In addition, the Chairman is informed of special events in the Company on a current basis.

The overall strategy is followed up by operational action plans. The status of such action plans are always on the Board meeting agenda.

4.1.4. The Committee **recommends** that the supreme governing body annually discuss the company's activities to ensure diversity at management levels, including equal opportunities for both genders, and that the supreme governing body set measurable objectives and in the management commentary in the annual report and/or on the company's website give an account of both the objectives and the progress made in achieving the objective.



In connection with the preparation of corporate social responsibility policies, Management has adopted a policy for Topsil's positions in respect of diversity:

Since Topsil is a global company, the Company considers a diversified labour force an asset. The Company recruits its employees on the basis of talent and personality and offers the same opportunities to everyone regardless of background, religion, gender or age. The Company wishes to encourage all employees to reach their full potential in accordance with their personal ambitions and goals.

The Company promotes a respectful and inclusive working environment and expects its employees to take a neutral position on politics and religion when representing the Company. The Company recognises the right of its employees to become members of unions and to engage in collective bargaining and will do anything in its power to avoid discrimination.

In respect of the Board of Directors and the Management Board, see 5.1.2.



4.2. PROCEDURES

4.2.1. The Committee **recommends** that the supreme governing body review its rules of procedure annually to ensure that they are adequate and always match the activities and needs of the company.



In 2011, the rules of procedure for the Board of Directors were reviewed at a Board meeting in November in accordance with the annual schedule. The rules of procedure are also reviewed in connection with relevant regulatory changes to ensure its adequacy and balance with the Company's needs.

The rules of procedure for the Board of Directors are available to the Board of Directors and Management Board.

4.2.2. The Committee **recommends** that the supreme governing body annually review and approve procedures for the executive board, including establish requirements for the executive board's timely, accurate and adequate reporting to the supreme governing body and for any other communication between the two governing bodies.



The responsibilities and tasks of the Board of Directors and Management Board are defined in the rules of procedure for the Board of Directors. In addition, the Board of Directors has given written instructions to the Management Board stating guidelines for its reporting to and communication with the Board of Directors. The instructions to the Management Board were reviewed at a Board meeting in November 2011.

These instructions are available exclusively to the Board of Directors and the Management Board.

4.3. THE CHAIRMAN AND DEPUTY CHAIRMAN OF THE SUPREME GOVERNING BODY

4.3.1. The Committee **recommends** that a deputy chairman of the supreme governing body be appointed, who must be able to act in the chairman's absence and also act as an effective sounding board 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.

4.3.2. The Committee **recommends** the preparation of a scope of work and task list specifying the tasks, duties and responsibilities of the chairman and deputy chairman.



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

4.3.3. The Committee **recommends** that the chairman of the supreme governing body organise, convene and chair meetings to ensure efficiency in the body's work and to create the best possible working conditions for the members, individually and collectively.



The Chairman prepares the agenda for the Board meetings in collaboration with the Management Board in accordance with the annual schedule for the Board of Directors. The Chairman is in charge of the meeting, and time is allocated to each item on the agenda to ensure the processing of all items.

Documents/presentations for the Board meetings are balanced with the time allocated and accompanied by a prioritised reading schedule.



4.3.4. The Committee recommends that, if the board of directors in exceptional cases asks its chairman to perform special tasks for the company, including briefly participate in the day-to-day management, a board resolution to that effect should be passed and precautions taken to ensure that the board of directors will maintain responsibility for the overall management and control function. A reasonable distribution of duties must be ensured between the chairman, the deputy chairman, the other members of the board of directors and the executive board. Information about agreements on the chairman's participation in the day-to-day management and the expected duration hereof must be disclosed in a company announcement.



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

In 2011, the Chairman and the Deputy Chairman briefly performed special tasks in connection with Topsil's acquisition of a minority stake in Cemmat Silicon S.A.'s subsidiary Cemmat '70 S.A. This was based on a prior authorisation from the entire Board of Directors.

5. COMPOSITION AND ORGANISATION OF THE SUPREME GOVERNING BODY

5.1. COMPOSITION

5.1.1. The Committee **recommends** that the supreme governing body annually specify the skills it must have to best perform its tasks and that the specification be posted on the website. Proposals for the nomination/replacement of members of the supreme governing body to be submitted to the general meeting should be prepared in the light hereof.



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.

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

5.1.2. The Committee **recommends** that the supreme governing body ensure a formal, thorough and transparent process for selection and nomination of candidates to the supreme governing body. When assessing its composition and nominating new candidates, the supreme governing body must take into consideration the need for integration of new talent and the need for diversity in relation to international experience, gender and age, etc.



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.

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 chairmanship (the Chairman and the Deputy Chairman of the Board of Directors) prepares a profile to be presented to the entire Board of Directors for approval and nominates suitable candidates, most often with the help of external advisers.

The assessment of the composition of the Board of Directors and the nomination of new candidates are primarily based on skills and qualifications.



5.1.3. The Committee **recommends** that a description of the nominated candidates' qualifications, including information about other executive functions, e.g. memberships of executive boards, boards of directors and supervisory boards, including board committees, held by the candidates in both Danish and foreign companies as well as information on demanding organisational tasks should accompany the notice convening the general meeting when election of members to the supreme governing body is on the agenda.



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.

5.1.4. The Committee **recommends** that every year, the annual report contain an account of the composition of the supreme governing body, including its diversity, and of any special skills possessed by the individual members.



The annual report and the website contain an overview of the composition of the Board of Directors and the skills of the individual Board members.

5.2. TRAINING OF MEMBERS OF THE SUPREME GOVERNING BODY

5.2.1. The Committee **recommends** that new members joining the supreme governing body be given an introduction to the company.



Topsil offers newly elected Board members a thorough introduction to its products, markets and industry. They also receive material on Topsil's strategy and operations.

5.2.2. The Committee **recommends** that the supreme governing body annually assess whether the skills and expertise of its members need to be up-dated.



In its annual self-evaluation, the Board of Directors assesses whether its skills should be updated.

5.3. NUMBER OF MEMBERS OF THE SUPREME GOVERNING BODY

5.3.1. The Committee **recommends** that the supreme governing body have only so many members as to allow a constructive debate and an effective decision-making process enabling all members to play an active role.



As laid down in the Articles of Association, the Board of Directors consists of three to six members elected by the shareholders. In 2011, there were four Board members elected by the shareholders and two members elected by the employees in accordance with the provisions of the Danish Companies Act. The Board of Directors considers whether the current number of members is adequate in relation to the Group's size and complexity.

5.3.2. The Committee recommends that in connection with the preparation for each year's general meeting, the supreme governing body consider whether the number of members is appropriate in relation to the requirements of the company.



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.



5.4. THE INDEPENDENCE OF THE SUPREME GOVERNING BODY

5.4.1. In order for the members of the supreme governing body to act independently of special interests, the Committee **recommends** that at least half of the members elected by the general meeting be independent persons.

The independent supreme governing body member may not:

- be, or have been within the last five years, a member of the executive board/managerial staff of the company or an associated company,
- have received significant additional remuneration from the company/group or an associated company apart from a fee for its services in the capacity as a member of the supreme governing body,
- represent the interests of a controlling shareholder,
- within the last year, have had a material business relationship (e.g. personally or indirectly as a partner or an employee, shareholder, customer, supplier or member of a governing body of companies with similar relations) with the company or an associated company,
- be, or have been within the last three years, an employee or partner of the external audit firm,
- hold cross-memberships of governing bodies,
- have been a member of the supreme governing body for more than 12 years, or
- have close family ties with persons that are not regarded as independent persons.



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.

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.

5.4.2. The Committee recommends that at least once every year, the supreme governing body list the names of the members who are regarded as independent persons and also disclose whether new candidates for the supreme governing body are considered independent persons.



Information on the Board of Directors' independence is disclosed on the Company's website and in the agenda for the annual general meeting. Any transactions between Topsil and non-independent members of the Board of Directors are described in a note in the annual report.

5.5. MEMBERS OF THE SUPREME GOVERNING BODY ELECTED BY THE EMPLOYEES

5.5.1. The Committee **recommends** that the individual company explain, in the company's annual report or on its website, the system of employee-elected board members and the company's use hereof in companies where the employees have chosen to apply the provisions of the Companies Act on employee representation.



The Company's website contains an account of the rules concerning the members of the Board of Directors elected by the employees.

The existing staff representatives were elected to the Board of Directors in 2011, and their election term runs until 2015.



5.6. MEETING FREQUENCY

5.6.1. The Committee **recommends** that the supreme governing body meet at regular intervals according to a predetermined meeting and work schedule or when meetings are deemed necessary or appropriate as required by the company and that the number of meetings held be disclosed in the annual report.



Board meetings are held at least five times a year in connection with the financial reporting and the annual general meeting. Furthermore, an annual strategy seminar is held.

The Board of Directors follows an annual schedule fixed each year in November together with the financial calendar and otherwise meets when deemed necessary. The number of meetings held is disclosed in the annual report. In 2011, ten Board meetings and one strategy seminar were held.

5.7. EXPECTED TIME COMMITMENT AND THE NUMBER OF OTHER EXECUTIVE FUNCTIONS

5.7.1. The Committee **recommends** that each member of the supreme governing body assess the expected time commitment for each function in order that the member does not take on more functions than he/she can manage in a satisfactory way 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.

5.7.2. The Committee recommends that the annual report contain the following information about the members of the supreme governing body:

- the member's occupation,
- the member's other executive functions, e.g. memberships of executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign companies as well as demanding organisational tasks, and
- the number of shares, options, warrants, etc. that the member holds in the company and its consolidated companies and any changes in such holdings during the financial year.



Board members' positions, directorships and managerial positions, shareholdings in Topsil and changes in such holdings are stated in the annual report under "Company information" and on the website.

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

5.8. RETIREMENT AGE

5.8.1. The Committee **recommends** that the company's articles of association fix a retirement age for members of the supreme governing body and that the annual report contain information on such retirement age as well as the age of each member 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.



5.9. ELECTION PERIOD

5.9.1. The Committee **recommends** that members of the supreme governing body elected by the general meeting be up for re-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.

5.9.2. The Committee **recommends** that the annual report state when the individual member of the supreme governing body joined the body, whether the member was re-elected and when the current election period expires.



The year in which the members joined the Board, whether members were re-elected and the expiry of the members' current term are disclosed in the annual report and on the Company's website.

5.10. BOARD COMMITTEES

5.10.1. The Committee **recommends** that the company publish the following information in the management commentary in its annual report or on the company's website:

- the terms of reference for the board committees,
- 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 2010. Information on the terms of reference for the Audit Committee, significant activities in 2011, the number of meetings and the names of the members and their special skills and independence is disclosed on the Company's website.

5.10.2. The Committee **recommends** that a majority of the members of a board committee be independent members.



Both members of Topsil's Audit Committee are independent.

5.10.3. The Committee **recommends** that the supreme governing body establish an actual audit committee.



See 5.10.1.

5.10.4. The Committee **recommends** that the following be taken into account in composing the audit committee:

- the chairman of the supreme governing body should not be chairman of the audit committee, and
- between them, the members should possess such an amount of expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit conditions of companies whose shares are admitted to trading on a regulated market.



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.



5.10.5. The Committee **recommends** that, prior to the approval of the annual report and other financial reports, the audit committee monitor and report to the supreme governing body about:

- significant accounting policies,
- significant accounting estimates,
- related party transactions, and
- uncertainties and risks, including in relation to the outlook.



The Audit Committee monitors the financial reporting, and the routines and procedures described form part of the annual schedule for the Audit Committee.

5.10.6. The Committee **recommends** that the audit committee:

- annually consider whether there is a need for an internal audit function, and if so,
- formulate 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.



As part of the annual schedule, the Audit Committee monitors Topsil's internal control systems and assesses whether internal audit is required. No internal audit function was established for the 2011 financial year.

5.10.7. The Committee **recommends** that the supreme governing body establish a nomination committee with at least the following preparatory tasks:

- describe the qualifications required in the two governing bodies and for a given position, and state the expected time commitment for a position and evaluate the balance of skills, knowledge and experience available in the two governing bodies,
- annually evaluate the structure, size, composition and performance of the governing bodies and make recommendations to the supreme governing body with regard to any changes,
- annually evaluate the skills, knowledge and experience of the individual members of the governing bodies and report such details to the supreme governing body,
- consider proposals submitted by relevant persons, including shareholders and members of the governing bodies, for candidates for executive positions, and
- identify and recommend to the supreme governing body candidates for the governing bodies.



The description of qualifications and nomination of new candidates for the Board of Directors are prepared by the chairmanship as described under 5.1.2. This will be formalised in 2012.

The assessment of the Board structure, size, composition, performance and skills form part of the Board's annual self-evaluation.



5.10.8. The Committee **recommends** that the supreme governing body establish a remuneration committee with at least the following preparatory tasks:

- make proposals, for the approval of the supreme governing body prior to approval at the general meeting, on the remuneration policy, including the overall principles of incentive pay schemes, for members of the supreme governing body and the executive board,
- make proposals to the supreme governing body on remuneration for members of the supreme governing body and the executive board and ensure that the remuneration is consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the supreme governing body and the executive board receive from other companies in the group, and
- oversee that the information in the annual report on the remuneration of the supreme governing body and the executive board is correct, true and sufficient.



As appears from the remuneration policy, the tasks are performed by the chairmanship. This will be formalised in 2012.

The Board of Directors believes that considering the Company's size and complexity, setting up a formal remuneration committee is not required. The tasks are undertaken by the chairmanship who submits proposals for approval by the entire Board of Directors.

5.10.9. The Committee **recommends** that the remuneration committee do not consult with the same external advisers as the executive board of the company.



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

5.11. EVALUATION OF THE PERFORMANCE OF THE SUPREME GOVERNING BODY IN THE EXECUTIVE BOARD

5.11.1. The Committee **recommends** that the supreme governing body undertake an annual evaluation of the performance and achievements of the supreme governing body and of the individual members of the body.



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

Based on a questionnaire, the Board of Directors assesses a number of statements concerning Board meetings, business relations and the work performed by the Chairman and the Board members.

5.11.2. The Committee **recommends** that the chairman be in charge of the evaluation of the supreme governing body, that the outcome be discussed in the supreme governing body and that the details of the procedure of self-evaluation and the outcome be disclosed in the annual report.



The Chairman is in charge of the evaluation, the results are discussed by the Board of Directors in an open dialogue, and the conclusions are reported in the minute book. The procedure for and the results of the evaluation are disclosed in the annual report.

5.11.3. The Committee **recommends** that the supreme governing body at least once every year evaluate the work and performance of the executive board in accordance with pre-defined 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 on the basis of a questionnaire and according to the same procedure.



5.11.4. The Committee **recommends** that the executive board and the supreme governing body establish a procedure according to which their co-operation is evaluated annually through a formalised dialogue between the chairman of the supreme governing body and the chief executive officer and that the outcome of the evaluation be presented to the supreme governing body.



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.

6. REMUNERATION OF THE MEMBERS OF THE GOVERNING BODIES

6.1. CONTENT AND FORM OF THE REMUNERATION POLICY

6.1.1. The Committee **recommends** that the supreme governing body adopt a remuneration policy applicable to the supreme governing body and the executive board.



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

6.1.2. The Committee **recommends** that the remuneration policy and any changes to the policy be approved by the general meeting of the company.



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

6.1.3. The Committee **recommends** that the remuneration policy include a thorough description of the components of the remuneration for members of the supreme governing body and the executive board.



The remuneration policy contains a description of the remuneration components.

6.1.4. The Committee **recommends** that the remuneration policy include:

- 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.



In order for Management to attract and retain the best and most qualified members, Management receives a competitive remuneration. The remuneration must be fair and reflect Management's independent performance, responsibilities and value creation for Topsil.

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

6.1.5. 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 term,
- there be clarity about performance criteria and measurability for award of variable components, and
- there be criteria ensuring that vesting periods for variable components of remuneration agreements are longer than one calendar year.



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, for a period of three years, subscribe for shares at a price corresponding to the price at the beginning of the period. The value of the warrants is calculated according to the Black & Scholes formula.

No upper limit for the size of the bonus has been defined in the existing agreement.



6.1.6. The Committee **recommends** that remuneration of members of the supreme governing body do not include share or warrant programmes.



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.

6.1.7. The Committee **recommends** that if members of the executive board receive share-based remuneration, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should not be exercisable earlier than three years from the date of grant. An explanation of the relation between the redemption price and the market price at the time of grant should be provided.



The existing share option scheme for the Management Board and other managerial staff running from 2009 to 2011 is not revolving as specified in the the recommendations of 8 April 2010 issued by the Committee on Corporate Governance in Denmark.

A new share option scheme, which is in compliance with the recommendation, will be presented to the shareholders at the annual general meeting to be held on 25 April 2012.

6.1.8. The Committee **recommends** that, in exceptional cases, companies should be able 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.



The existing bonus agreement for the Management Board does not give the Company the right to reclaim variable components of the remuneration in full or in part in exceptional cases.

The new CEO contract comprises a clause of reclaim in full or in part of incorrectly paid bonus.

The contract of the EVP, Director of Logistics, Sales and Marketing will be reviewed.

6.1.9. It is **recommended** that severance payments should not amount to more than two years' annual remuneration.



The Management Board is not entitled to any kind of remuneration upon retirement from their positions, other than salaries in the period of notice.

No arrangements of an unusual nature in respect of severance payments were made in 2011.

6.2. DISCLOSURE OF THE REMUNERATION POLICY

6.2.1. The Committee **recommends** that the remuneration policy be clear and easily understandable and that it be disclosed in the annual report and posted on the company's website.



Relevant details about the remuneration policy are found in the annual report and the remuneration policy is published in full on the Company's website.

6.2.2. The Committee **recommends** that the company's remuneration policy and compliance with this policy be explained and justified in the chairman's statement at the company's general meeting



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 2011.



6.2.3. The Committee **recommends** that the total remuneration granted to each member of the supreme governing body and the executive board by the company and other consolidated companies be disclosed in the (consolidated) financial statements and that the linkage with the remuneration policy be explained.



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 concerning staff costs and is specified on the Company's website.

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.

6.2.4. The Committee **recommends** that the details of any defined benefit schemes offered to members of the supreme governing body or the executive board and the actuarial value of such schemes as well as changes during the year be included as part of the information on the total remuneration.



Topsil has not undertaken any defined benefit plans for the members of the Board of Directors or the Management Board.

The pension contribution for registered executives has been fixed as a percentage of the payroll cost stated in the service contracts and is disclosed in the annual report in a note concerning staff costs.

6.2.5. The Committee **recommends** that the most important aspects of retention and severance programmes be disclosed in the company's annual report.



No retention or severance schemes have been concluded with the Management Board.

6.2.6. The Committee **recommends** that the proposal for remuneration of the supreme governing body for the current financial year be approved by the shareholders at the general meeting.



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.

7. FINANCIAL REPORTING

7.1. OTHER RELEVANT INFORMATION

7.1.1. The Committee **recommends** that the annual report and other financial reports be supplemented by additional financial and non-financial information, if deemed necessary or relevant in relation to the information needs of the recipients.



Topsil has prepared its annual reports in accordance with IFRS since 2005. The Board of Directors assesses on a current basis whether the annual report should be supplemented by other relevant information. Since 2010, the Company has prepared a CSR report, which is included in the annual report and published on the website.

As a supplement, Topsil has published press releases and presentations, which also contain non-financial information.



7.2. GOING CONCERN ASSUMPTION

7.2.1. The Committee **recommends** that, upon consideration and approval of the annual report, the supreme governing body decide whether the business is a going concern, including supporting assumptions or qualifications where necessary.



The "going concern assumption" is discussed by the Audit Committee which reports to the Board of Directors. The Board of Directors will consider whether the business is a going concern, and such position will be recorded in the minute book.

8. RISK MANAGEMENT AND INTERNAL CONTROL

8.1. IDENTIFICATION OF RISKS

8.1.1. The Committee **recommends** that the central governing body at least once every year identify the most important business risks associated with the realisation of the company's strategy and overall goals as well as the risks associated with financial reporting.



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.

8.1.2. The Committee **recommends** that the executive board currently report to the supreme governing body on the development within the most important areas of risk and compliance with adopted policies, frameworks etc. in order to enable the supreme governing body to track the development and make the necessary decisions.



The Management Board reports developments within the most significant risk areas, compliance with policies etc. to the Board of Directors in connection with the review of the quarterly reports.

8.2. WHISTLEBLOWING

8.2.1. The Committee **recommends** that the supreme governing body decide whether to establish a whistleblowing scheme for expedient and confidential notification of possible or suspected wrongdoing.



Upon the recommendation of the Audit Committee, Management believes that the Company's size with a flat and informal organisational structure does not justify a whistleblower function. Hence, it has been decided not to establish such a function in 2011.

8.3. OPENNESS ABOUT RISK MANAGEMENT

8.3.1. The Committee **recommends** that the management commentary in the annual report include information about the company's management of business risks.



Information on business risks is disclosed in the annual report under "Statutory report on corporate governance" in accordance with IFRS.



9. AUDIT

9.1. CONTACT TO AUDITOR

9.1.1. The Committee **recommends** that the supreme governing body maintain a regular dialogue and exchange of information with the auditor.



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 decisionmaking.

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.

9.1.2. The Committee **recommends** that the auditor agreement and auditors' fee be agreed between the supreme governing body 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.

9.1.3. The Committee **recommends** that the supreme governing body and the audit committee meet with the auditor at least once every year without the executive board present. This also applies to the internal auditor, if any.



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.

9.2. INTERNAL AUDIT.

9.2.1. The Committee **recommends** that the supreme governing body, on the basis of a recommendation from the audit committee, once every year decide whether to establish an internal audit for support and control of the company's internal control and risk management systems and state the reasons for its decision in the annual report.



Monitoring internal audit of control and risk management systems forms part of the annual schedule for the Audit Committee.

Upon recommendation from the Audit Committee, the Board of Directors has decided not to establish an internal audit function. The basis for such decision is explained in the annual report.